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COVID-19 Changes Will Affect Emerging Markets Investment Opportunities Beyond Technology

New investment opportunities in emerging markets (EM) are resulting from the coronavirus pandemic's impact on consumer behavior.

EMERGING MARKETS EQUITY

KEY TAKEAWAYS

- COVID-19 has accelerated various trends, such as the migration to online and digital platforms, greatly boosting the growth of e-commerce.
- The pandemic has created long-term structural changes in consumer behavior beyond e-commerce, including remote working, distance learning and virtual health care. Tech companies whose products and services address the needs created by these trends are likely beneficiaries.
- These structural shifts in consumer behavior are widespread in China and throughout emerging markets, where e-commerce, internet penetration and digitalization are increasing rapidly. This adoption continues to rise even though governments have relaxed many pandemic-related restrictions.

COVID-19 has profoundly affected how we live. The need to shop, bank, learn, play and even communicate remotely has hastened the use of digital technologies. The pace of digital adoption should quicken as remote working, online learning and e-commerce penetration continue to rise. These trends are prevalent in emerging economies, where approximately 75% to 80% of the world's consumers will soon reside, according to the Brookings Institute. We expect the pattern of faster digitalization in China, which has continued after the lifting and/or loosening of virus mitigation measures, to develop across emerging markets. This transformation should create investment opportunities in many sectors and industries.



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A Structural Shift in Consumer Behavior: E-Commerce

The global health crisis has fueled the already rapid increase in online shopping and other online economic activity. Before the pandemic, online retail sales (as a percentage of all retail sales) had more than tripled since 2011, according to U.S. Census Bureau statistics. The shelter-in-place environment led consumers to significantly alter their shopping and buying habits. According to July 2020 UBS research, many Chinese consumers—particularly those in the 45+ age group—ordered online for the first time during lockdown periods. They have accepted online shopping as a viable alternative to visiting physical stores. UBS further reported that the addition of this demographic group to the online shopping universe has been a real boost to e-commerce.

The accelerated move toward online shopping has forced many businesses to focus on their digital and cloud-based offerings. Many companies are adapting to this new environment by reorienting their businesses away from brick-and-mortar facilities to online operations. We expect underpenetrated areas, such as groceries and food delivery, household items and personal care products (items less frequently bought online before the pandemic) to experience the strongest growth.

The trend toward urbanization further supports e-commerce expansion. According to United Nations estimates, nearly 700 million people will migrate to cities in emerging markets over the next decade. This should help solidify the shift in EM consumer behavior—to demand premium-quality products in striving for a better quality of life. Better access to the internet in cities should support the transition to more online engagement.

Covid-19 Is Changing Behavior Beyond E-Commerce

The pandemic's impact on e-commerce is evident, but its effect will reach well beyond online shopping. In fact, consumers' attitudes on work, transportation, health and hygiene, education and entertainment have shifted, perhaps permanently. The use of online platforms has expanded beyond e-commerce, requiring increased development of sophisticated internet infrastructure, including 5G networks.

REMOTE WORKING

Forced to work from home, individuals need better software and more reliable internet access. This new environment has led to an explosion in usage of online collaboration and communications tools. Beneficiaries of these trends include companies offering IT services, cloud-based technologies, servers, data storage, networking logic and memory.

BIKING BOOM

The reluctance to take public transportation during the pandemic has led to surging demand for traditional and electric bicycles (e-bikes). Online searches for bicycles have increased more than 500% since March 2020, according to Google Trends. Demand

continues to widely outstrip supply, and many areas have long waiting lists for new inventory. Makers of e-bikes and scooters are also benefiting from the significant increase in demand for food delivery as indoor dining remains unavailable in many cities.

TELEHEALTH

The pandemic has led many consumers to deploy health care apps and virtual medical visits for the first time. China has seen strong growth in online consultations, which are expected to grow 40% annually through 2026, according to market research firm Frost & Sullivan. We expect this trend to continue to soar as patients become more comfortable with telehealth and more appreciative of the convenience of online visits for routine care.

Additionally, medical institutions may not be able to meet increasing demand for in-person health care visits, a result of scarcity and the uneven distribution of resources across emerging markets.

Cleanliness and hygiene have become a top priority, another trend we believe will persist after the outbreak has concluded. Use of surgical gloves for personal protection remains low in key areas such as China and India. However, we expect demand for gloves in health care facilities and for personal use to continue to increase.

REMOTE LEARNING

The pandemic's long-term impact on education could be profound. Approximately two-thirds of students (around 1.2 billion people) have been affected by pandemic-related shutdowns, according to UNESCO data, so remote learning has escalated. We expect this move toward adoption of remote education to continue to fuel the structural shift from in-person to online learning.

MEDIA CONSUMPTION

The new stay-at-home culture has radically changed how people consume media and entertainment. Streaming music and video and online gaming has increased exponentially since the onset of the pandemic. Online advertisers, streaming content providers and online gaming platforms are notable beneficiaries.

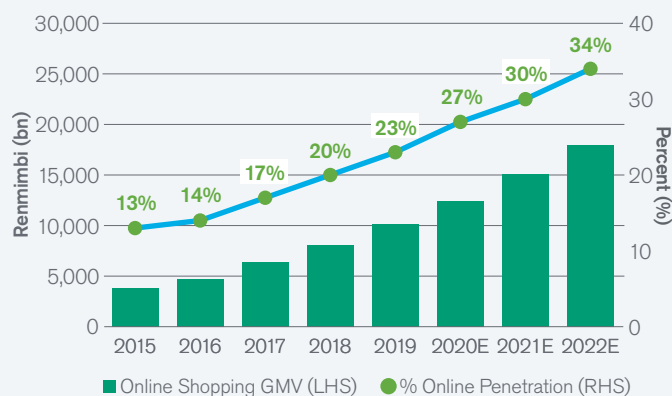
The Effects on Emerging Markets: China, Asia and Beyond

Internet usage is rising steadily in China, across the ASEAN region and in India as it becomes an integral part of everyday life, especially in urban areas.¹ Online shopping, digital payments and working-from-home needs support this expansion. Southeast Asia's internet economy has tripled over the previous four years, to USD100 billion in 2019, according to Bloomberg.com. This economy is expected to triple again, to USD 300 billion by 2025. As a result, companies in the region are investing to improve their online footprints and expand fulfillment capabilities. Companies are reorienting their businesses as many customers are using online platforms for the first time. COVID-19 has supported this trend, leading to a sharp increase in e-commerce penetration in Asia and India.

¹ The Association of Southeast Asian Nations (ASEAN) is a regional intergovernmental organization comprising Indonesia, Thailand, Malaysia, Singapore, Philippines, Vietnam, Brunei, Myanmar, Cambodia and Laos.

FIGURE 1
Online Shopping in China Is Increasing Steadily

GROSS MERCHANDISE VOLUME (GMV) AND PENETRATION RATE

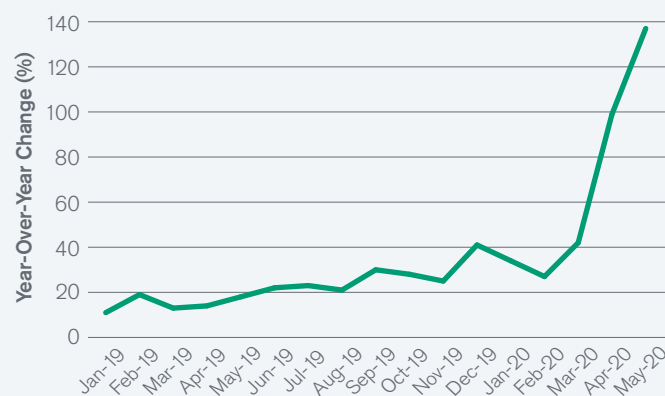


Data from 12/31/2015 to 12/31/2022. 2020 forward is estimated.
Source: iResearch, UBS estimates.

Internet expansion is not just an Asian story. Internet usage is inflecting positively in Russia and Brazil as well. In Russia, e-commerce penetration is accelerating significantly. Trends well underway in developed markets, such as Uber-like models for taxis and food delivery are growing rapidly. In Brazil, e-commerce remains underpenetrated but is on the upswing.

FIGURE 2
Brazilian E-Commerce Soars During the Pandemic

STAY-AT-HOME NEEDS HELP FUEL ONLINE ORDERS



Data from 1/31/2020 to 05/31/2020
Source: MCG-eNet, UBS.

Structural Changes Create New Opportunities

COVID-19 has accelerated the broad shift from offline to online. This move has borne out in e-commerce, especially in categories (e.g., grocery delivery) and demographics (e.g., older consumers) that have historically been underrepresented online. The long-term effects of the pandemic are reaching outside e-commerce. Working, learning, playing and caring for ourselves and our families have been transformed by the stay-at-home environment.

We believe many of these trends represent long-term, structural changes to consumer behavior that will be with us long after the coronavirus. And these changes have created new opportunities in many sectors and industries transformed by the global health crisis.

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