Wellness edition MONTHLY BAROMETER PRESCIENT & SUCCINCT ANALYSIS OF WHAT'S OUT THERE **February 2020**

- The world economy is on the verge of something unprecedented: **a global slowdown led by China, not the US**. It is now inevitable that the coronavirus will badly dent Chinese GDP in Q1, and possibly Q2. As today China accounts for about a fourth of global growth (a larger share than the US, Europe and Japan combined) the effect of this will be felt globally.
- The coronavirus has now reached almost 50 countries and the economic risks have increased accordingly, although the ultimate global economic impact remains unpredictable. The only certainty: the market consensus (that broke on Feb. 25th) that the epidemic would be contained by early April and followed by a V-shaped recovery now looks like an overdose of wishful thinking. **At the very best, the concerns with the epidemic will fade out during Q2** (either because the infection rate is receding or because we'll learn to live with the virus), **followed by a U-shaped recovery.** Another plausible, more likely scenario: the coronavirus will trigger a global recession - the longer the epidemic lasts and the more it spreads, the greater the risk. **From a wellbeing perspective, the impact of Covid-19 on mental health is bound to be profound**. A recent medical article warns of "widespread panic and increasing anxiety in individuals subjected to the (real or perceived) threat of the virus". In addition, the outbreak is spurring fear on a societal level, generating in particular scapegoating, stigma and xenophobia.
- As human beings, we are bad at assessing risks: **we overestimate unknown risks and overreact to highly publicized ones** (like for the coronavirus) and underestimate risks that we voluntarily assume (like driving a car or eating junk food). At the moment, we are grappling with the cognitive dissonance between the public health measures (exceedingly strict to prevent the health system becoming overwhelmed) and our individual risk (exceedingly limited except for cases of immunodeficiency). We are also exposed to **an infodemic:** the social media and information frenzy are fanning the flames of our ancestral fears about pandemics and re-igniting the search for scapegoats (normally the "foreigner"). When this is over, the global landscape will be slightly, but significantly different. Apart from the substantial economic cost, de-globalization will have advanced and the decoupling of China and the West will have accelerated. There are two wellbeing twists in this. First, being victims of "probability neglect" makes us focus on the outcome more than probabilities. Let's keep things in perspective: so far in the current season, **the flu has sickened many more people than the coronavirus**. In the US, there have been 32 million cases of flu, several hundred thousands hospitalisations and 18,000 related deaths. By contrast, to date (March 4th), about 130 people have been infected with the new coronavirus, with ten deaths. Second: we are not powerless in the face of Covid-19: **leading a well life boosts our immune system** and is therefore one of the possible antidotes to the virus. This presents a phenomenal opportunity for the wellness industry.
- Too many pundits mischaracterise the epidemic **as a black-swan event – which it is not**. For years, international organisations like the WHO, institutions like the WEF and CEPI and individuals like Bill Gates have been warning us about the next pandemic risk, even specifying that it (1) would emerge in a highly populated place where economic development forces people and wildlife together, (2) would spread quickly and silently by exploiting networks of human travel and trade, and (3) would reach multiple countries by thwarting containment. Other potential adverse shocks mis-categorised as black-swans range from wars (like between the US and Iran, or in the Middle East or the south-China Sea) to political and social chaos (like post-election in the US). None are unpredictable per se **- it is their propensity to create perfect storms** when they conflate with other risks that takes us by surprise.
- Many industries and businesses are being hit hard by the coronavirus. **For some, the pain will be acute but transient**, like for the global conference business – valued at about USD2-2.5tr in 2018 and growing at roughly 10% per year. In our subjective estimate, an overwhelming majority of events planned between now and June are being cancelled, with economic losses extending beyond the event itself (in Barcelona, the cancellation of the Mobile World Congress will deprive the city of almost €500m in revenues and 14,000 people of a temporary job). **For others, the current pain poses existential questions**. A notable example is the until-very recently fast-growing cruise industry. Already beset by acute environmental issues, it now risks being seen as a provider of seaborne petri dishes.
- De-growth used to be an idea of lunatics'… Not now! Increasing concerns about the environment and climate emergency are questioning GDP growth orthodoxy. Not only is **consumer driven de-growth emerging with force** (less meat, less flights, less consumerism generally), but also a still small but rapidly growing movement is gaining traction among businesses and investors. Companies and strategies that favour reparable products with longer lifespans (from phones and cars to fashion) or that even offer free repairs (Patagonia outdoor wear), and platforms for trading used products are bound to benefit. This issue that ranges from consuming a bit less to outright de-growth will soon and inevitably entail a **major rethink within the wellness industry**: how it operates, sells, markets itself, etc. Think of Pasteur's famous quote: **"Chance favours the prepared mind"**.
- The premise: GDP per capita and wellbeing are uncorrelated (beyond a certain, minimal threshold). A recent analysis conducted by the Financial Times in the UK corroborates what many observers sense intuitively: **GDP per capita and subjective wellbeing do not inevitably go together**. In a recent analysis conducted by the Financial Times in the UK, gross value added (GVA) per head shows unequivocally that **a dynamic economy does not buy happiness**. Even in London's most dynamic areas, individuals are less likely than average to report that their life is worthwhile.
- A few recent telling signs corroborate our long-standing conviction that the **sustainability trend is not only inevitable but so is its acceleration**: (1) BP's commitment to net zero by 2050 "or sooner", preceded a few days earlier by Lundin Petroleum's announcement to become carbon neutral by 2030! (2) Ilmarinen's (Finland's largest pension fund) USD600m investment in an ESG ETF managed by BlackRock. (3) A group of Wall Street titans endorsing the Carbon Dividend plan of the Carbon Leadership Council. (4) Deloitte forecasting that ESG funds will represent half of US professional AUM within just 5 years… We could

go on! For all these, the devil is in the detail, but **count on activists and new research outfits to monitor closely and report on what's happening**. As we have said on so many different occasions, **sustainability and wellbeing are completely intertwined**, but who will lead the charge in the travel & tourism industry that seems to be lagging behind compared to some of its industry peers? Organisations like It Must Be Now (https://www.itmustbenow.com) are clearly ahead of the game, setting best practices, offering certification tools and creating signalling effects. We posit that as the climate emergence intensifies, such organisations will put into motion a snowball / cascading effect. **Expansion will therefore be exponential, not linear**. Latecomers and doubters beware!

- A ground breaking new scientific report puts the **global value of the yearly decline in natural assets** (measuring only those biological, not physical) **at USD479bn**, which in turn suggests that reversing nature loss or adjusting to it (when it's too late) must become an economic priority. Drastic changing weather conditions in the Alps are just one more proof that **"business-as-usual" is dead in the era of accelerating climate change**. Much warmer temperatures than average are forcing ski resorts to ponder what to do when the natural asset that underpins their business (snow in winter) is disappearing. They are not alone. **The wellness tourism industry is at the forefront of this.** Coastal and mountain assets are most exposed. Risks are important, but opportunities as well for those capable of adapting and deploying capital fast.
- The recent Munich Security Conference, saw an emerging polemic over **"Westlessness"** – the idea that the West is uneasy, hopelessly divided and challenged, not only by the rise of China but also by its own internal bickering. **A further concern is Germany's weakness** and contingent doubts about its role as a pillar of European stability. Following the resignation of the CDU's leader (and Merkel's chosen successor), German politics is in disarray. Meanwhile, Germany, that exports more to China than even the US, is the European country most vulnerable to a Chinese slowdown.
- **Boris Johnson got Brexit done, but no one knows exactly what this means**. The UK has entered a transition period during which a no-deal (i.e. a hard exit on WTO terms) or limited deal with the EU are still all too conceivable (the latter would entail endless negotiations in all the sectors not covered by an initial agreement). **For business, this means as much uncertainty as before**.
- **WORKPLACE WELLNESS: we highlight below two new interesting developments.**
  1) Un-wellness at work is becoming one of the big elephants in the corporate room. As a revealing example, in 2017-2018 in the UK, stress, depression and anxiety accounted for more than half (57 per cent) of total working days lost due to ill health. The issue of mental health in the workplace seems to be continuously getting worse, which begs the question of what to do and the relevance of workplace wellness. A new, comprehensive, report from Deloitte UK sheds interesting light on corporate investment in employees' mental health and how it helps to reduce absenteeism and presenteeism (as well as staff turnover). The results of their return on investment analysis shows **a complex but positive case for employers to invest in the mental health of their employees**, with an average return of £5 for every £1 spent (hence a 400 per cent return). However, potential returns are subject to a large spread, ranging from 0.4 to 1 to nearly 11 to 1. Interventions with the highest returns are those that focus on preventive large-scale initiatives, and on using diagnostics and technology to tailor support for those most in need.
  2) An increasing number of companies are offering mindfulness and meditation apps to their employees in an effort to counter the epidemic of stress, depression and anxiety that is affecting so many within their workforce. The meditation market is growing particularly fast. In the US, it was estimated to be USD1.21bn in 2018 and is forecasted at USD2.08bn in 2022 (according to Marketdata Enterprises). In the digital sphere, Calm – the first mental health unicorn - and Headspace come ahead of their competitors (most notably Reflectly, Meditopia and Breethe). How effective are these apps? It's hard and too early to tell, but **they seem to have some benefits over "real" mindfulness and meditation sessions**, particularly in terms of quality and consistency. The reason: the mindfulness and meditation market is over crowded with very low or non-existent barriers to entry; as a result many consultants are at best not up to the job at worst charlatans. This being said, **offering an app is not a guaranteed panacea**. First, any piecemeal approach is bound to fail because only a holistic wellbeing solution can deal with the complexity of human beings' needs and motivations – therefore "just buying some stuff" won't fix the problem. Second, **mindfulness and meditation serve no purpose whatsoever in a workplace polluted by a toxic culture**. As an example, those global companies known to impose unrealistic performance targets upon their employees and characterized by an "always-on" culture won't solve the problem of misery at work by offering a mediation app. It simply won't work! This raises the issue of the **over commoditisation of mindfulness** - too often being seen as just something else to sell with little or no regard for its genuine contribution to client wellbeing. The most ludicrous but illustrative example: a mediation app to download on our phone that tells us to put down our phone…
- **REAL ESTATE AND WELLBEING**: According to the UN, global real estate contributes up to 30 per cent of annual greenhouse gas emissions and consumes around 40 per cent of the world's energy. This is why **the next big trend in the industry will be to combine its wellness and sustainability components**. Moving forward, the fast-growing business of wellness lifestyle real estate will have no choice but to take into consideration all the requirements destined to improve the wellbeing of our planet in addition to that of the tenants (or the owners). As a reminder, the UN Sustainable Development Goals for real estate are primarily: (1) the implementation of integrated water resources management, (2) the increase in the share of renewable energy, (3) the doubling in the global rate of improvement in energy efficiency, (4) the reduction of the per capita environmental impact by waste management. **For wellness real estate investors, this means the following: they'll have to focus on both the income component of total returns and capital expenditures required to integrate SDG goals**. The latter will naturally entail a decline of net cash flows, but it is inevitable. Already, an increasing number of real estate funds integrate sustainability into their investment process and asset management. They do so by often offering a 10-y strategy to align the property or portfolio with SDG goals, thus gaining a competitive advantage. Any real estate project with wellness lifestyle ambitions must place these SDG criteria at the heart of their strategy.