

# CRISIS SENTIMENT INDEX

Pandemic Edition – April 2020

Executive Summary

*While the questions and responses analyzed herein are primarily about the economic and financial impact of the pandemic, we must acknowledge the massive human costs of this outbreak. A focus here on business and economic effects is in no way intended to diminish the importance of the human story with which many of us are too closely familiar.*

We report the CSI – Pandemic index on a scale of 0 to 100, calculated as a weighted average of responses to questions regarding:

- the length of time for which companies are planning to manage for substantial disruptions
- the present severity of the pandemic
- expectations for global or regional depression or recession
- expectations for knock-on, yet unrealized, financial market disruptions, and
- expectations for how quickly the pandemic will be under control

**For April 2020, the CSI-Pandemic is at a reading of 73, a five-point increase from last month, indicating substantial and growing stresses.**

- 73% of respondents indicate at least a 50% chance of global depression, where world GDP falls by at least 15%
- 76% of organizations report planning for significant disruptions to normal activities for six months or more
- 47% of organizations say they are preparing for substantial disruptions

for one year or more, an increase from just 28% in the prior month

- 92% of respondents indicate at least a 50% chance that a material, as yet unrealized, financial or market stress of global impact will be seen
- Just 8% believe the pandemic is more likely than not to be under control within three months
- The severity of the pandemic, however, has lessened slightly, with 25% describing it as "extremely high," and the number describing it as low/moderate now at 33%

We also asked questions this month about how well resiliency planning has held up during the pandemic and what business aspects firms are prioritizing. Are they focused on recovery, yet?

More details follow. Should you have any questions, please don't hesitate to contact me. We will update this report at least once each month, while the pandemic remains a concern.



David R. Koenig

*The survey was conducted between Wednesday, April 22<sup>nd</sup>, and Saturday, April 25<sup>th</sup>. Survey participants, 197 in total, typically hold the titles of Chief Risk Officer / Heads of Risk Management (32%), Board Director (29%), or other C-Level or senior executive title (39%). Respondents are reporting from the Americas (45%), EMEA (33%), and the Asia-Pacific (16%) regions or with the perspective of a global corporation (6%).*

# CRISIS SENTIMENT INDEX

*Pandemic Edition*

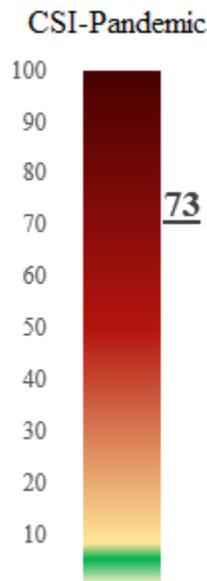
The **Crisis Sentiment Index for April 2020 is 73, a five-point increase over the reading taken at the end of March**, indicating severe and worsening stresses around the world.

Respondents indicate concern that the economic impact of measures taken to control the pandemic may be overwhelming the overall medical impact. This mindset is not to suggest in any way that respondents are unconcerned about the threat to life and well-being. While the **percentage of respondents who feel the severity of the pandemic is "extremely high" has dropped from 33% last month to 25% this month**, the **portion that feels the pandemic will be under control within three months is just 9%**, a smaller percentage than in March.

One North American Chief Risk Officer said, "It's not the pandemic that's the problem – it's the economic disruption. When are we going to see pitchforks on the street? Think Arab Spring..." Meanwhile, a Western European Chief Risk Officer described the economic impact as "massive due to the confinement." Another C-level Executive from Western Europe pointed to the countries in Southeast Europe that are more at risk because they had not yet fully recovered from the Great Recession and are not in a fiscal position to help moderate the economic effects of the economic shutdown. And,

indicating issues with possible access to capital, a Chief Risk Officer in North America said, "I deal in lending, and the volumes have dramatically dropped off. Access to capital is nearly non-existent."

When asked whether they expect regional economic conditions to improve or worsen, **by a factor of seven to one, respondents expect economic conditions to worsen over the coming six months**. Fully 36% feel that economic conditions will worsen substantially. **The percentage expecting a global depression where world GDP falls by more than 15% has grown to 41% from 37% in March.**



We also asked respondents to tell us how long their organizations are planning for significant disruptions to their ordinary course of business. **The percentage of respondents expecting that disruption to be one year or more has grown from 28% in March to 46% in April**. Interestingly, respondents seem satisfied with how their resiliency planning has worked, with **70% of respondents saying resiliency plans have worked well**. Consistent with the value of continuous feedback and learning in resiliency plans, **73% of respondents indicate they have already started looking for ways to improve resiliency**. Of those who said their resiliency plans are working well, nearly 80% reported they would continue to work to improve them.

This month we added the ability for respondents to indicate that they were answering on behalf of a global organization, using that perspective. Fully 90% of these respondents felt that their resiliency plans had worked well so far.

One indication of where the pandemic and efforts to control it have garnered the focus of boards and senior executives is on their prioritization of focus on crucial business matters. When asked to rank order the importance of various elements to their ability to navigate the crisis, **respondents indicated that human capital and financial capital are far and away highest on their list.** Somewhat surprisingly, but also potentially an encouraging sign, is that **the next most crucial area of focus is positioning their organization for the recovery.** Lowest on the list, in order, are regulation, supply chain issues, and competitive issues.

The response from survey participants regarding regional conditions seems to run counter to some of the narrative around control of the pandemic. While all regions indicate high levels of stress, the **Asia/Pacific region had a regional CSI reading of 81, fully 8 points above the global index.** Nearly half of respondents from that region expect a substantial worsening of economic conditions, and **75% say a forthcoming global depression is either likely or highly likely.** Supply chain concerns are also more significant within the Asia/Pacific region than elsewhere.

Perhaps it is, therefore, not surprising that **89% of respondents in the Asia/Pacific region believe a yet unrealized financial market event of global impact is likely or almost certain.**

Given the sentiment expressed by respondents that the economic damage may be outweighing the health impacts, the pressure seems to be growing to allow more free movement to "open the economy." With such, and perhaps with some concern over political attitudes being less cautious about a second wave of infections, we asked survey participants about the likelihood of a second wave of infections. **Nearly 8 in 10 say they are planning for a second wave of the pandemic in their region.** That figure jumps to 85% in the Asia/Pacific region.

One Chief Risk Officer in China said to expect "at least three waves...before it calms down." Commenting on the impact of this extended cycle, that same respondent said, "The globalization playbook is gone forever. Manufacturing will recover faster than service sectors." A North American C-level executive commented that despite expectations of future waves of infection, "We have gone from an unemployment rate of 1.9% to 28% in three weeks – the economic impact will last much longer than the virus."

Another North American C-level executive describes the belief that "politics, not health policy, will drive the resurgences and the response to those resurgences." This respondent said that their organization is, therefore, refraining from any actions that "may be seen as partisan through any possible lens." This respondent also said they are expecting localized, staggered resurgence of the virus over the next six months.

Many respondents indicated an expectation that the massive health, social, and economic impact of the pandemic could alter economic models globally and permanently. Said one board

member from Eastern Europe, "The elephant in the room is the massive stress on the global financial ecosystem based on the U.S. Dollar...the petrodollar has seen its day pass. What will come to gradually (or suddenly) substitute for it in the next 18 months?" A Chief Risk Officer in China noted, "It is [ironic] that China becomes a more or less safe-haven in April versus three months ago." A North American board member said, "The pandemic will change markets, demand, pricing, perceived value, and needs." And according to one North American Chief Risk Officer, things could be even worse: "There are no playbooks here. The problem is that within 18 months we will face a new world. We anticipate mass personal bankruptcies, widespread foreclosures, and a fundamental fracture in the mortgage finance sector."

With specifics, they continued, "We expect an additional 20% decline in the S&P500 and negative long term UST yields. A combination of deflation and unemployment with social unrest - particularly in Midwest - will impact the supply chain on the coasts. We are looking at 2-3 years before there will be a recovery."

At the risk of becoming impossibly gloomy in this month's analysis (if we have not already), many respondents cite a lack of political leadership as a major issue, especially in the U.S. Said one senior executive from North America, "It seems we are on the road to repeating every mistake made during the 1918 pandemic here."

A senior executive in Southern Africa stated their belief that "the impact of the lockdown on citizens was not given enough thought." They continued, "Hungry people are angry people, and

those two factors with the inevitable job losses soon to follow will have an extremely volatile impact and consequences." Meanwhile, a Chief Risk Officer in China said to expect, "a global war, no matter in economic or military fields. Almost all people's life and working styles will change, and de-globalization will take shape for the next decade."

Respondents do believe that the key to seeing better than expected outcomes in the coming months and years is the development of a vaccine and adequate testing. A North American board member believes that partial normalcy can be realized with testing and effective treatments, but that full normalcy will not return until a vaccine is widely available.

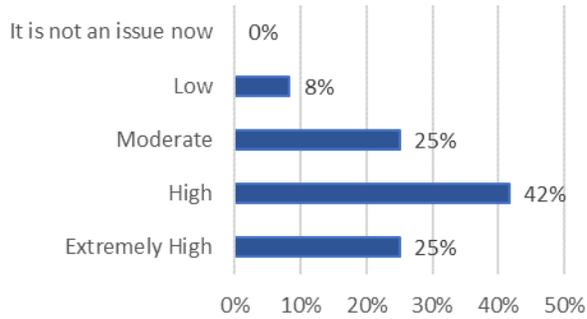
It seems almost certain that political leaders are going to have to make extremely difficult decisions about balancing sure increases in loss of life should distancing restrictions be lifted with the dramatic negative economic impact and potential social unrest that would come from keeping them in place.

DCRO members are people of action. Fear can lead even the best of us to inaction or defensive responses. So, to end on a note of hope and to provide a possible map to recovery, a North American Board Member suggests that we all read [Harvard's Roadmap to Pandemic Resilience](#).

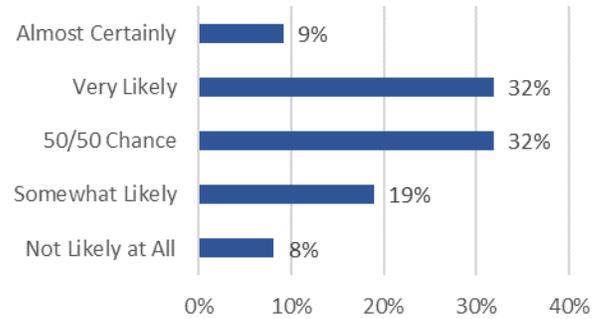
Our survey will be updated late in May unless conditions change dramatically between now and then.

**April 26th, 2020**

### Local Pandemic Severity



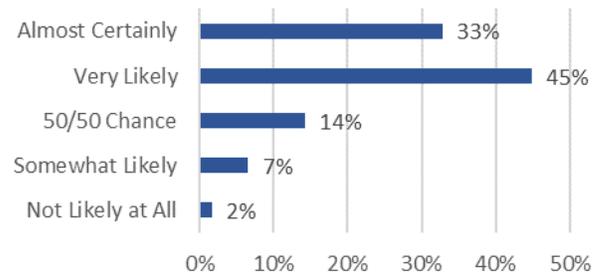
### Chance of Global Depression



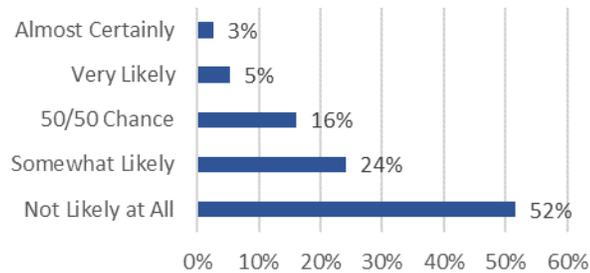
### Expected Length of Business Disruption



### Material New Financial or Market Disruption



### Pandemic Under Control Within Three Months



## Contact:

David R. Koenig  
Founder  
The Directors and Chief Risk Officers Group  
[www.dcro.org](http://www.dcro.org)

email) [david@davidrkoenig.com](mailto:david@davidrkoenig.com)  
telephone) +1-612-286-1776

LinkedIn) [www.linkedin.com/in/davidrkoenig/](http://www.linkedin.com/in/davidrkoenig/)

