

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 July 2020, the CSI-Pandemic is at a reading of 72, a three-point increase from last month, indicating some deterioration and continuing substantial stresses.

- 70% of respondents think a material new financial or market disruption is very likely or almost certain
- The assessed severity of the pandemic has increased, with respondents assigning a near-zero probability that the pandemic will be under control within three months
- After three straight months of improvement, the regional severity of the pandemic has worsened in the

Australia/New Zealand/Pacific region and has worsened in every major region except Europe

- 54% of respondents are planning for a disruption to normal business activities for one year or more, which is a seven-point improvement from last month
- CSI-Pandemic for Global Corporations is at a record high of 86 – a worsening of 15 points over last month, with material deteriorations in almost all areas of assessment.

This month we asked respondents to rank the sources of most negative impact on their companies as well as to give us an assessment of any perceived changing political power among the largest political economies in the world. Details related to these questions are in the full report.

Should you have any questions, please don't hesitate to contact me. We will update this report periodically while the pandemic remains a significant concern.



David R. Koenig

The survey was conducted between Monday, July 20th, and Friday, July 24th. Survey participants, 157 in total, typically hold the titles of Chief Risk Officer / Heads of Risk Management (28%), Board Director (42%), or other C-Level or senior executive title (29%). Respondents are reporting from the Americas (52%), EMEA (25%), and the Asia-Pacific (18%) regions or from the perspective of a global corporation (6%).

The **Crisis Sentiment Index for July 2020 is 72 – a three-point worsening from last month.** This level indicates that severe pandemic and response-driven stresses continue around the world, including a return to problems in regions like ANZ/Pacific and the worst assessment yet by those respondents representing global corporations.

Regional variations in conditions seems to be the theme among respondents this month, although **the picture presented by those representing global corporations was the worst yet with CSI-Pandemic Global Corporations coming in at a reading of 86 - fully 15 points higher than last month.**

While there had been a trend of improvement in the Australia/New Zealand/Pacific region in the past two reports, **a resurgence in the virus there caused CSI-Pandemic ANZ/Pacific to rise ten points to a reading of 78 this month.** This is still below its peak of 88 in April, but multiple respondents report concern. "There has been a resurgence in cases in part of Australia that if not controlled could cause considerable financial

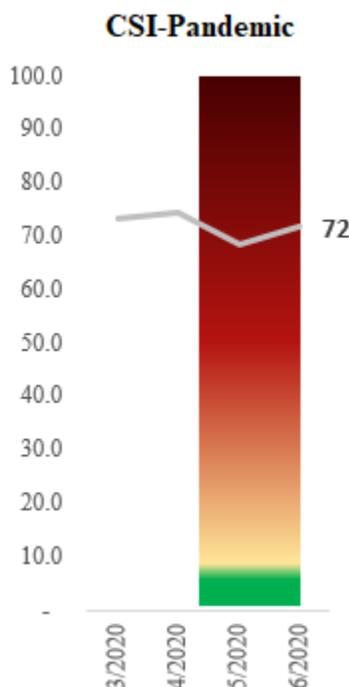
disruption to the economy," said a Chief Risk Officer from the region.

The most improved region and the one with the lowest CSI-Pandemic reading is Asia, where this month's evaluation was the most positive of the five months this survey has been taken.

The reading there of 69 is still quite high and indicative of significant stresses. But, several more positive comments about the region were received this month. A North American Chief Risk Officer opined, "Many north Asian economies, for example, appear to have gained control of the epidemic – and have relatively strong balance sheets and the policy space to weather the downturn."

Doubt was still expressed by some about the data coming from China with a c-level

executive from Western Europe, saying, "China has proven itself to be opaque and belligerent." At the same time, a Chief Risk Officer from North America stated, "China has not been forthcoming about the virus and its impact. Their published testing, infection, hospitalization, and fatality rates are incongruent with what has been observed in any other nation."



Survey respondents speak positively of Germany's efforts, and a Western European Chief Risk Officer notes, "Greece has a relatively low rate of infection cases." The UK has in past surveys, and in this one, received a less kind assessment of its progress in battling the pandemic and its knock-on effects. **Overall, CSI-Pandemic Europe rose six points this month to a reading of 71, roughly in-line with its average over the past five months.**

In North America, a sharp contrast between Canada and the United States is noted. And, within the United States, there are significant regional variations. One c-level executive in North America notes, "While the impact on Canada has dissipated - most regions including Ontario are at Level-3 status for opening of business, offices, etc., the major concern is the number of cases in the United States - new records twice in the last week, and the lack of leadership in combating the crisis, that results in closed borders between US, CA & MX, and curtailing of trade and commerce." **CSI-Pandemic for North America rose slightly to 72 this month, also roughly in-line with its average over the five months we have taken this survey.**

The most notable change in any of the components to the CSI-Pandemic index is a somewhat significant increase in expectations of a global or regional financial market event. This is driven by a worsening of this assessment in Europe, Australia/New Zealand/Pacific regions, and especially among those representing global corporations. **The latter's**

assessment indicates a 93% probability that a significant, yet unrealized, financial or market event is forthcoming.

These regional differences have also had an impact on the perceived political and economic power of some of the world's largest economies, which we discuss later in this report.

Sixty-three percent of respondents expect economic conditions to worsen over the next six months, while just 16% expect them to improve. The assessment of prospects in Europe is the most positive (least negative) of the regions, with 44% expecting a deterioration, while 31% expect stabilization, and 24% expect an improvement. A North American executive said, "Unless the United States reactivates tighter active controls to stem the rise in infection rates, this will impact the world economy. While infection rates are stable in Europe, the rates are rising in Brazil, Russia, and India. There is less transparency on "real" data from Iran & China, leading to skepticism on their level of containment. Hence a global recession is inevitable."

It is noted by some respondents that not all industries are suffering in the crisis as some have experienced increased demand. Still, travel and tourism, as well as any in-person service industries, have been most negatively affected. **Resulting strains on tax-revenues also seem to be putting governments in more precarious positions as debt levels rise** and anecdotal evidence is that those

working on restructurings are seeing a surge of interest in their skill set. It is not just government debt that is a concern. Said an Eastern European Board Member, "The unintended consequences of debt are still to be confronted. That, in our opinion, is the elephant in the global financial and socio-economic room."

As we mentioned in a previous report, the start of Winter in the Southern Hemisphere could give political economies in the Northern Hemisphere some indication of whether seasonality will contribute to a resurgence of the virus later this year. A c-level executive from Southern Africa notes, "winter continues to ravage us here." And, as was stated earlier, parts of Australia are seeing a resurgence already. **Like previous months, 85% of respondents expect another wave or resurgence in their region over the next six months.**

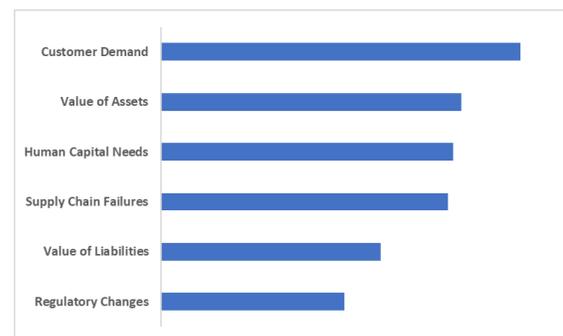
A North American c-level executive believes, "We are still in the first wave," and was presumably referring to the United States as another said, "The US never left the 1st wave due to the incompetence of Trump and his enablers." Denigration of the U.S. response to the virus has been a consistent theme of comments over the months we have conducted the survey, but the extent and vitriol of the comments this month was the highest yet.

Many also feel that the economic impact of the virus may be more significant than the actual health impact with a North American Chief Risk Officer going so far as to say, "[It's] beginning to [be] more

man-made than COVID 19 issues from the statistics," and a Chief Risk Officer from the Australia/New Zealand/Pacific region saying, "I have responded to these questions based on the current majority sentiment which is focused on the number of cases and deaths of COVID while not putting them into perspectives of general mortality rates or an understanding of just how many asymptomatic cases are out there. It is possible that society will tire of the novel part of the virus, and we will realize that it isn't the terrifying virus that the media wants to have."

Sources of Negative Impact

In our special section this month, we look at two distinct questions. The first asks, "From what source does your organization expect the most negative (financial) impact as a result of the pandemic and its knock-on effects?" The rank-ordering across all respondents clearly indicated that a drop in customer demand has been the most impactful. Sixty-two percent of respondents ranked



this either first or second.

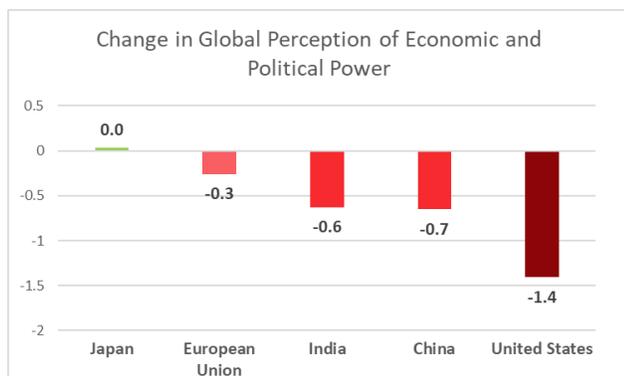
Adverse impacts from the value of assets, human capital needs, and supply chain failures were about equal, but there seems to be little financial impact from

regulatory changes. We hope that statement should not be followed by a qualifying, "yet."

Changes in Perceived Political and Economic Power of Major Economies

As noted above, there are growing regional disparities in how the pandemic is being managed, as well as its health, social, and economic impact. The United States is widely derided for its federal response to the pandemic, while China is, in some places, derided for a lack of transparency as the outbreak began, as well as with more recent statistics. We asked respondents about these two political economies, as well as those of Europe, India, and Japan - the five largest economies in the world, "How has the pandemic impacted the global perception of each as political and economic powers?"

Perhaps the results are not surprising.



Eighty-eight percent of respondents believe the standing of the United States has worsened to some extent, with fully 59% saying it has worsened substantially. China is not spared, but only 31% believe its standing has been worsened substantially. Said one North

American Board Member, "The world is now seeing the true power of China both financially and politically. The covers are off - they are so much more powerful than was previously known, and they are flexing their muscles. [They are] not good actors, but powerful ones."

A c-level executive from Asia notes, "China has hurt the rest of the world and hence will face the consequences. India has handled the pandemic quite well with bold measures. Germany has shown the world the power of its disciplined approach to issue resolution."

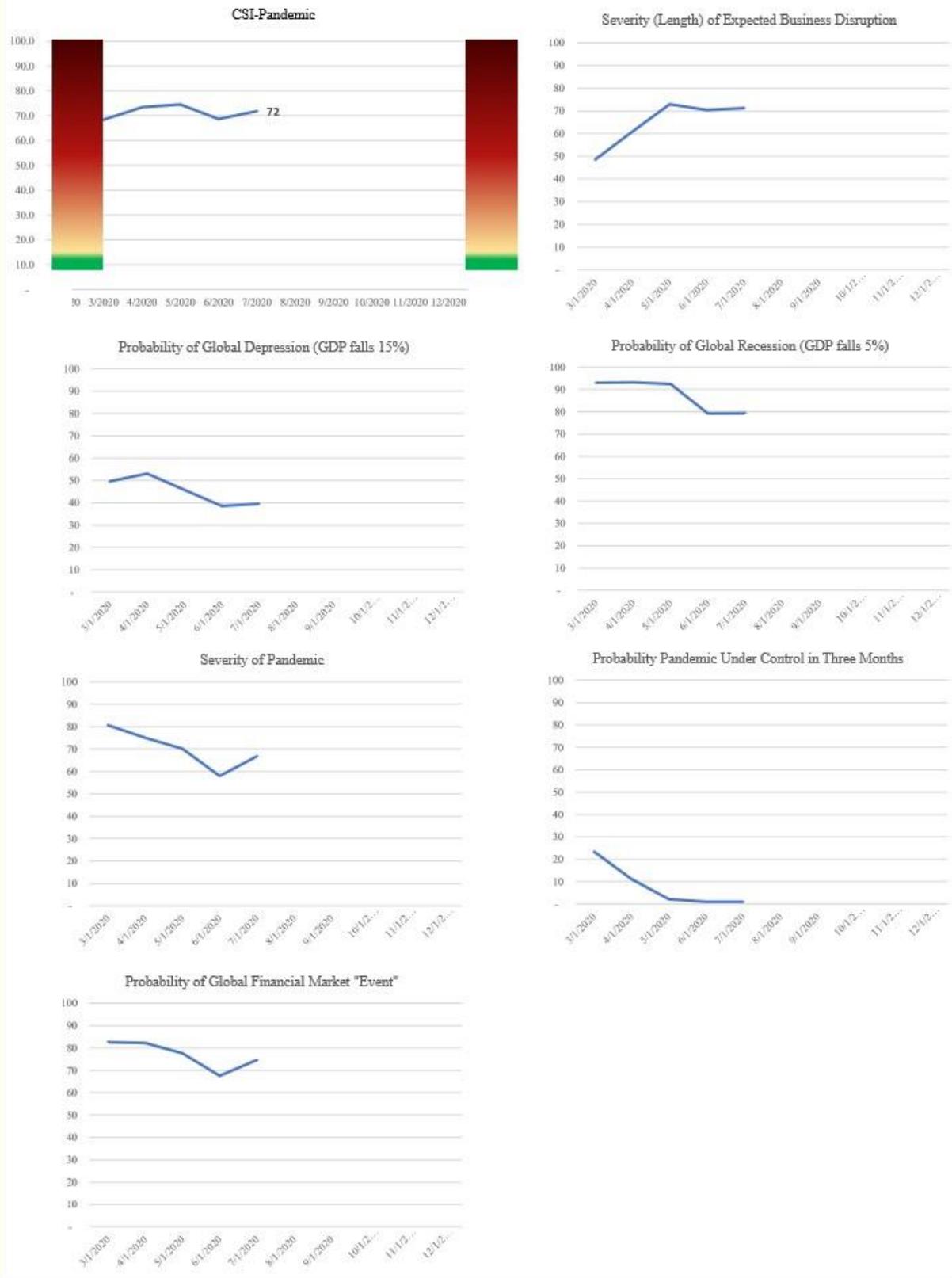
A North American Chief Risk Officer notes about the United States, "The lack of real, clear, and well-articulated leadership from the White House has been devastating. The trust in the political institutions has eroded substantively," which is among the kindest of statements made about its handling of the situation.

We note that only Japan seems to have maintained its perceived standing, while all large political economies are viewed more negatively. This has broad implications. Said an Eastern European Board Member, "[We have] real board-level concern about sovereign currencies, the USD, Euro, Yen, and DEBT. Something ominous this way comes."

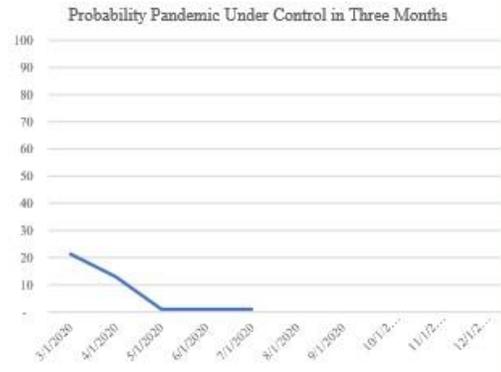
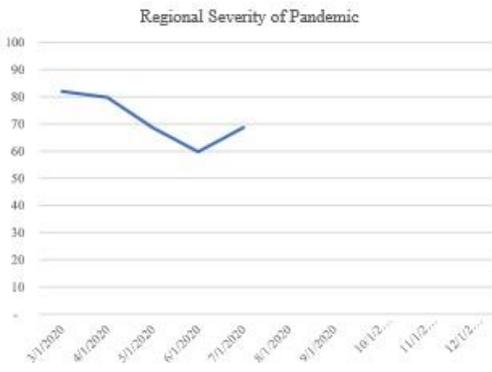
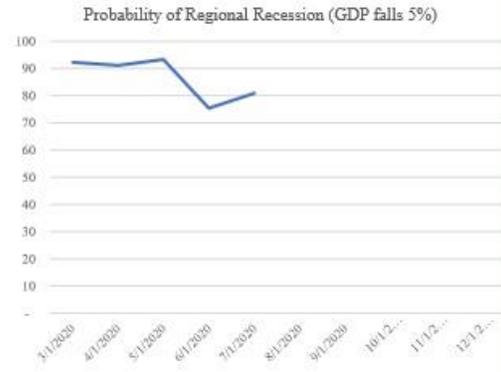
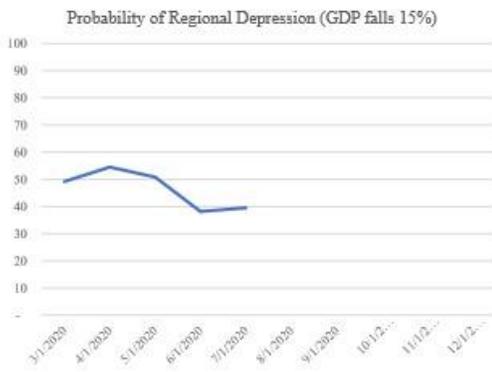
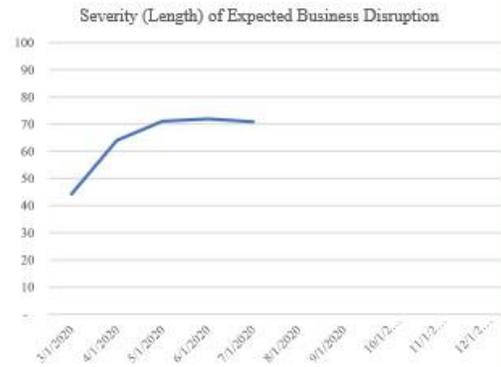
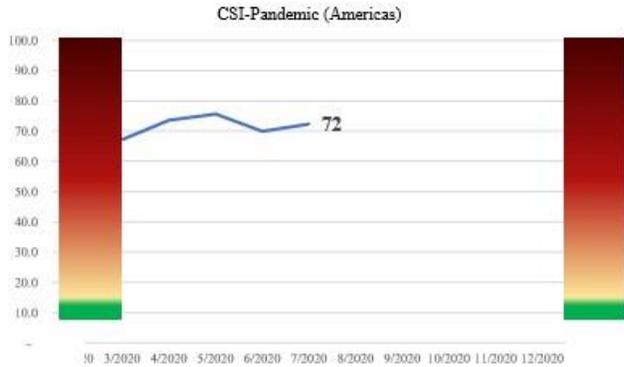
Be sure to review the regional assessments, read further insights from board discussions, and more comments from respondents in the Appendix to this report.

Appendix

CSI - Pandemic



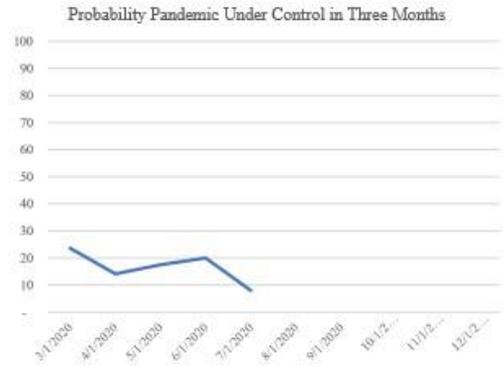
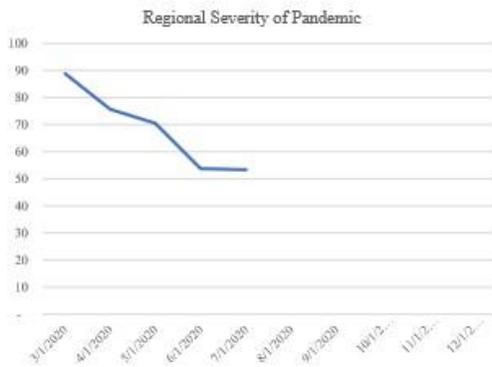
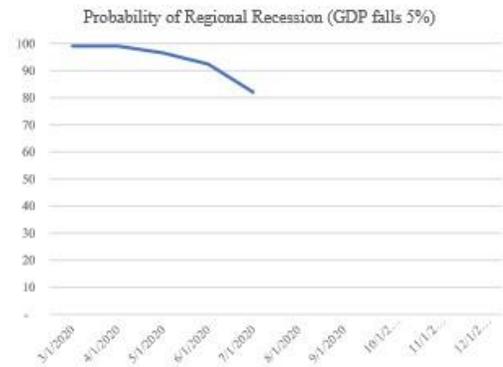
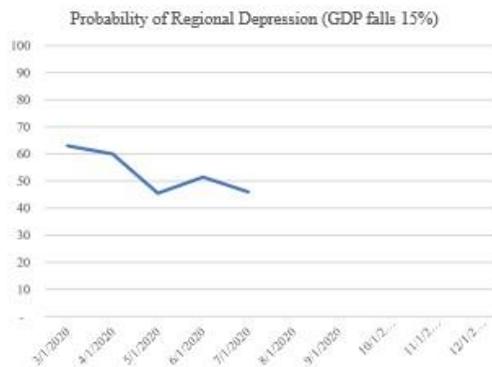
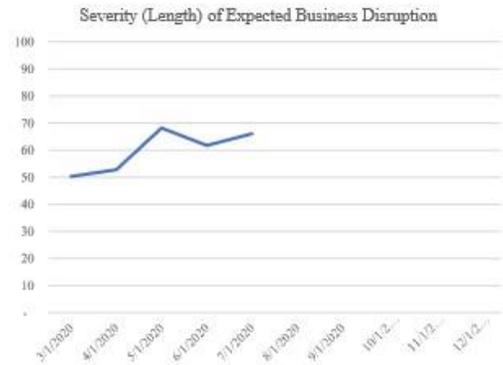
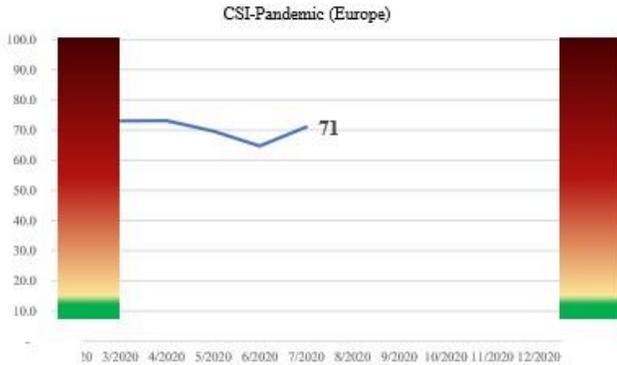
Regional Evaluations - North America



Notes:

Regional assessments are based on responses from those who indicated their answers were from the perspective of a business in that region. Calculation of the CSI-Pandemic index for the region differs from the overall CSI-Pandemic index in that it utilizes expectations for either a regional depression or a regional recession. CSI-Pandemic uses the data gathered on expectations for a global depression or recession. Therefore, it is possible for all regional CSI-Pandemic indices to be simultaneously above or below the overall CSI-Pandemic index.

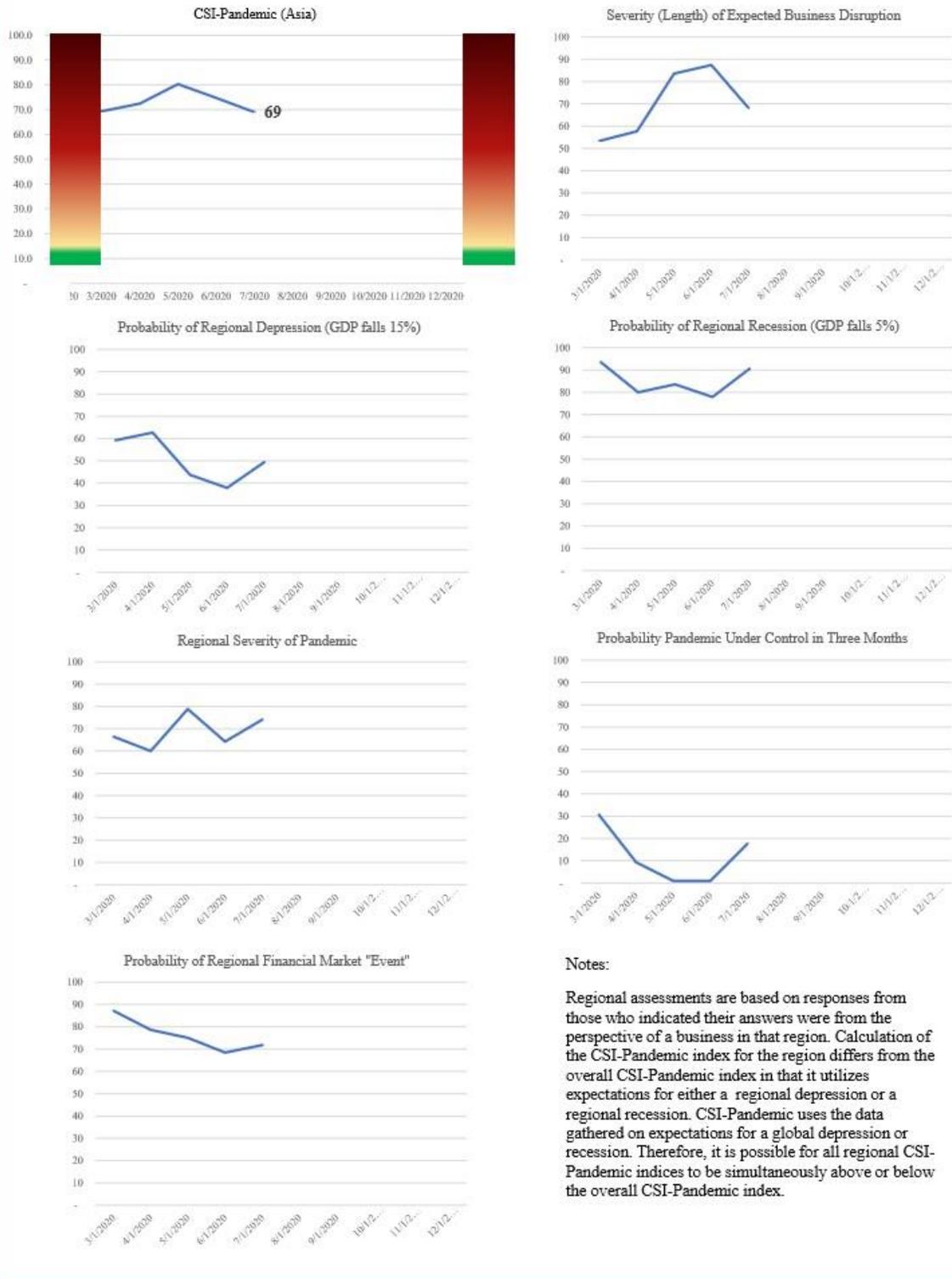
Regional Evaluations - Europe



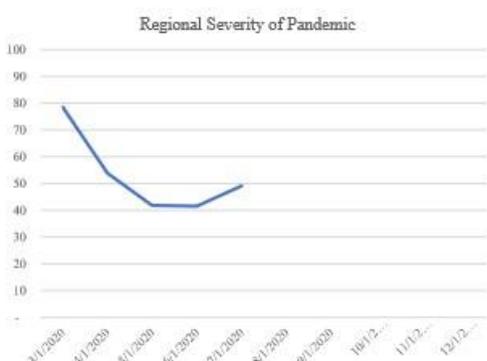
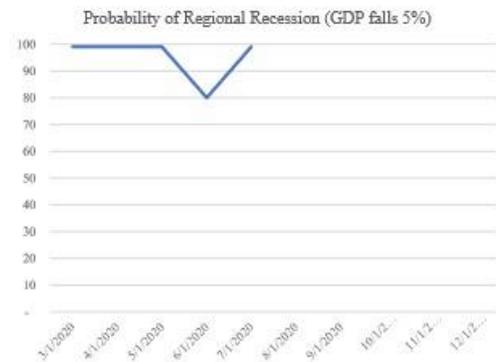
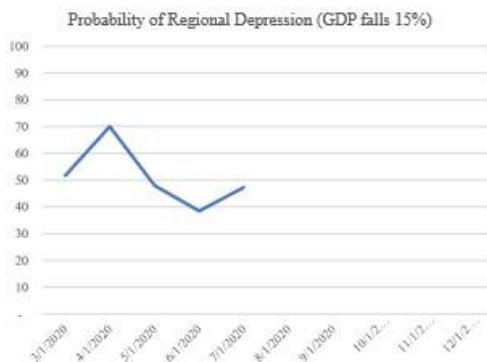
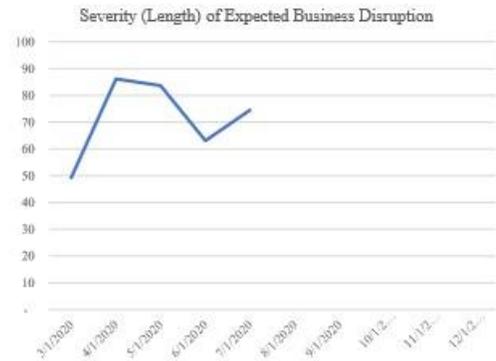
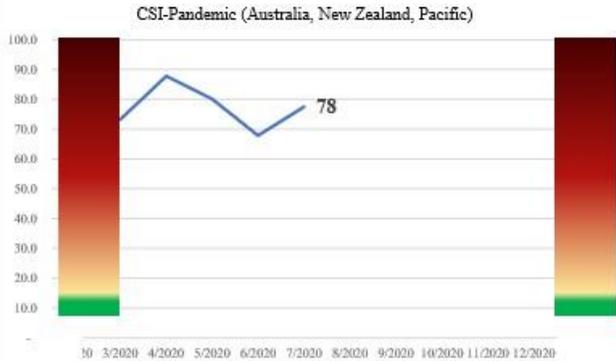
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Regional Evaluations - Asia



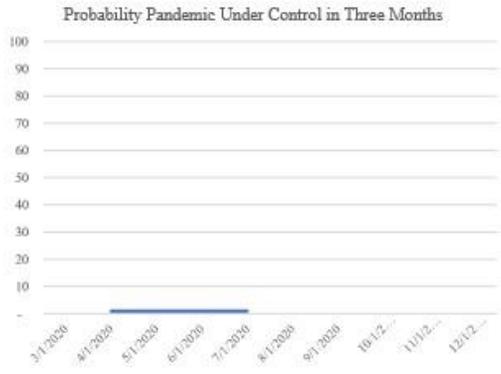
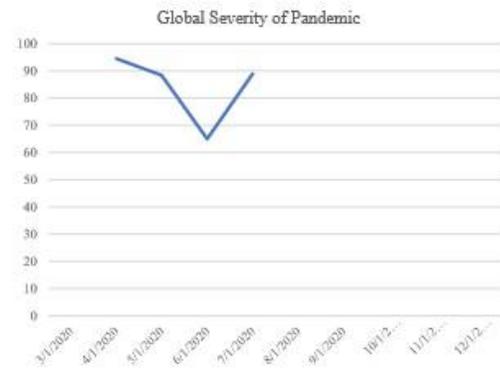
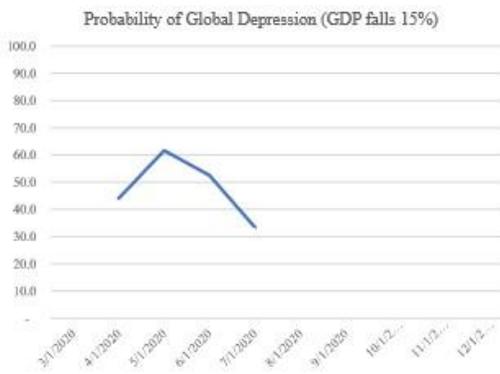
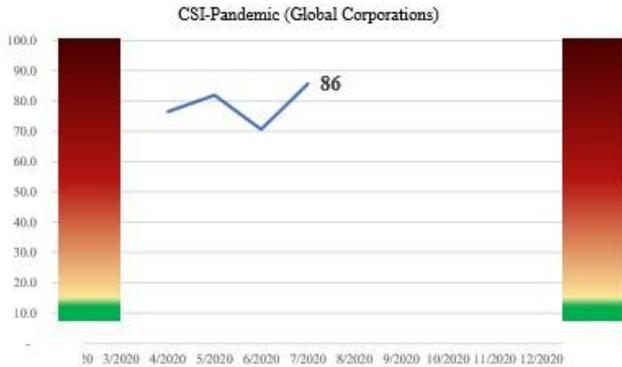
Regional Evaluations - Australia, New Zealand, Pacific



Notes:

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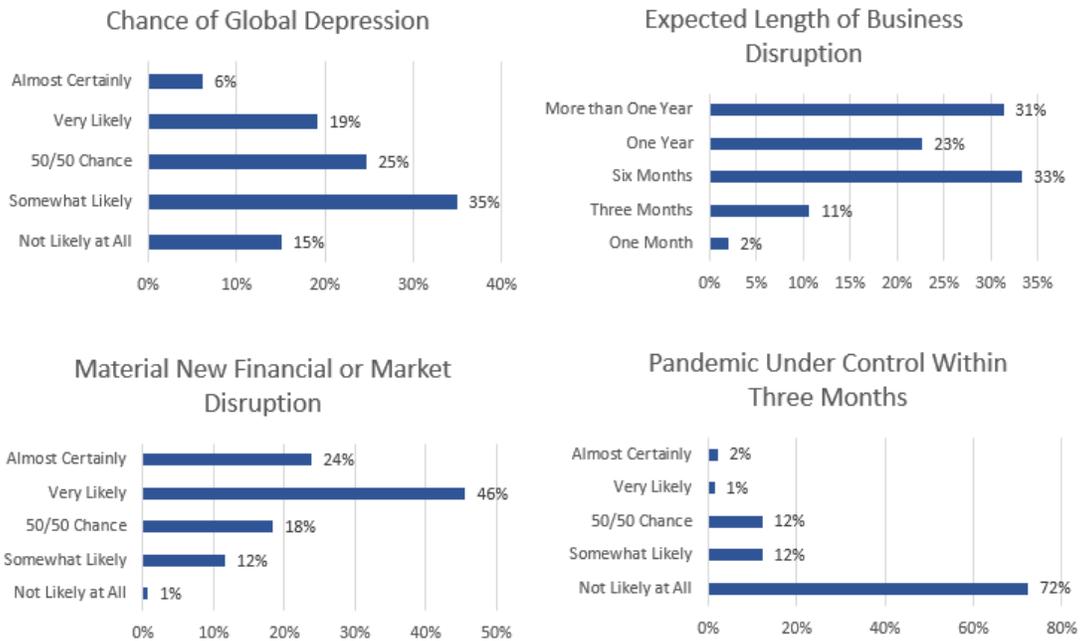
Regional Evaluations - Global Corporations



Notes:

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Global Data on Specific Questions



Select Additional Comments from Respondents

- "The pandemic continues to be severe, but businesses have adapted to remote or limited access. Certain sectors will benefit many more will be adversely affected and may not be able to adapt or have enough capital to wait for herd immunity or a vaccine." - *North American c-level executive*
- "No coordinated effort in the US by the federal government or across states is threatening the well-being of the country -- socially and economically, mental health, physical health. People are fatigued. It is looking more and more as though to a large extent, schools will not reopen or reopen fully. For all the optimism about productivity being up, there is a huge undercurrent of issues that are not being wrestled with, which can easily overwhelm any short-term productivity gains." - *North American Board Member*
- "Direct health impacts of SARS Cov2 / Covid19 are slowly diminishing. As we learn more, we uncover more that we don't know. There are more known unknowns than unknown unknowns, now. That's good." - *Western European Chief Risk Officer*
- "That a generation-defining public health crisis is purely politicized by ideological lines is a wake-up call. Our planning for our organization and our portfolio entities is severely disrupted by this. Simply, we cannot take the risk of lack of preparation

and lack of understanding of the complexities of fighting the impact of the virus. We have changed our planning and are implementing plans that focus on the protection of the staff while maintaining the operations as much as the demand dictates." - *North American Chief Risk Officer*

- "Africa seems likely to be the worst hit from this crisis due to the underfunding in healthcare. Even South Africa, perhaps Africa's advanced economy, is suffering as healthcare in some provinces begin to fail." - *Southern African Chief Risk Officer*
- "Whilst there has been good progress on a vaccine, many political leaders are relying on that as the solution. Business leaders need to remember that the AIDS virus, which came devastatingly in the early 1980s, still doesn't have a vaccine." - *Australia/New Zealand/Pacific Board Member*
- "News every day seems worse. The best hope of the US is a change in Administrations to at least do what should have been done from the start -- vastly expanded testing and working contact tracing, and from there it will be a long road to anything that feels like recovery including development of a vaccine that people are not afraid to take." - *North American Board Member*
- "We are overweight European stocks due to the region's strong public health systems and ramped-up policy response. We are underweight EM equities outside North Asia due to the pandemic's spread and limited policy space. North Asia has the virus under control for now and has the capacity for more stimulus, keeping us neutral on both Japanese and Asia ex-Japan equities. We like U.S. equities for their quality bias, but the risk of fading fiscal stimulus and election uncertainty keep us neutral." - *North American Chief Risk Officer*
- "[This is] not a medical issue. Actions taken are out of proportion with real issue and are structured to impact economy not [to] address a rather limited medical issue." - *North American Chief Risk Officer*
- "It is clear that in Australia that we are not prepared to deal with the virus in a way that prevents lockdowns." - *Australia/New Zealand/Pacific Chief Risk Officer*
- "Second wave in northern hemisphere in October/November seems inevitable." - *Western European Chief Risk Officer*
- "The pandemic has resulted in high unemployment levels for sustained periods (more than 6-months) - not designed in any stress/scenario tests before this year." - *North American Senior Executive*
- "The biggest hurdle ahead is clearing the over-hanging uncertainty and the big economical divide between the parties that got damaged and the ones that did not!" - *North American Board Member*



Contact:

David R. Koenig
Founder

The Directors and Chief Risk Officers Group
www.dcro.org

email) info@dcro.org
telephone) +1-612-286-1776

LinkedIn) www.linkedin.com/in/davidrkoenig/