



AVONHURST

VAX POPULI: ASSESSING POLITICAL RISK,  
RESILIENCE AND RELAPSE

TINA FORDHAM AND TSVETA PETROVA

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## Introduction

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With widespread political uncertainty in the face of an era-defining pandemic, our client base is seeking guidance in the area of political risk now more than ever.

They are not looking for generalisations, they want bespoke in-depth risk analysis and advice. As a political strategy and legal advisory firm focused on serving our sophisticated capital client base, we are excited to publish this ground-breaking study from a recognised industry leader in political risk analysis.

This new insight will provide another tool for Avonhurst clients to navigate uncertainty during the next phase of the pandemic.

I'm delighted to introduce this report which has been researched and written by our exceptional team.

We look forward to your feedback and would be delighted to discuss any element of the study with you.

Yours faithfully,



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Tina Fordham is a leading thinker and practitioner in the field of global political analysis for financial markets, with over two decades' experience advising institutional investors, corporate boards and international organisations.

Since 2020, Tina has been a partner and Head of Global Political Strategy at Avonhurst, a London-based boutique advisory firm dedicated to serving the needs of sophisticated capital. She also serves on the international advisory board at Cambridge University's new Centre for Geopolitics.

Previously she was at Citi for 17 years, where she was the first Chief Global Political Analyst on Wall Street and published her groundbreaking research on "Vox Populi" risk, an alternative framework for assessing the impact of political and socio-economic risks on the investment environment. She also led Citi's gender economics work stream.

In 2016, Tina was appointed to the first United Nations' High-Level Panel on Womens' Economic Empowerment, twice addressing the UN General Assembly. She has served as Senior Adviser in the UK Prime Minister's Strategy Unit, and in 1999 she founded Eurasia Group's financial markets research business, leading the creation of the firm's emerging markets political stability index and European expansion.



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Dr. Petrova's research interests lie at the intersection of domestic politics and international relations, including political risk and political economy, the relationship between political stability, international norms, social unrest and regime type. Previously she headed Eurasia Group's incubator for innovative political-risk analytics and led the development and launch of qualitative and quantitative commercial products leveraging advances in research methods, big data, and machine learning.

She is a Political Science lecturer at Columbia University, where she teaches graduate research methods, and is a frequent commentator on Europe for the New York Times, the Financial Times, and the Economist, among others. Dr. Petrova received her Ph.D. in Political Science from Cornell University and subsequently held post-doctoral positions at Harvard University and Columbia University.

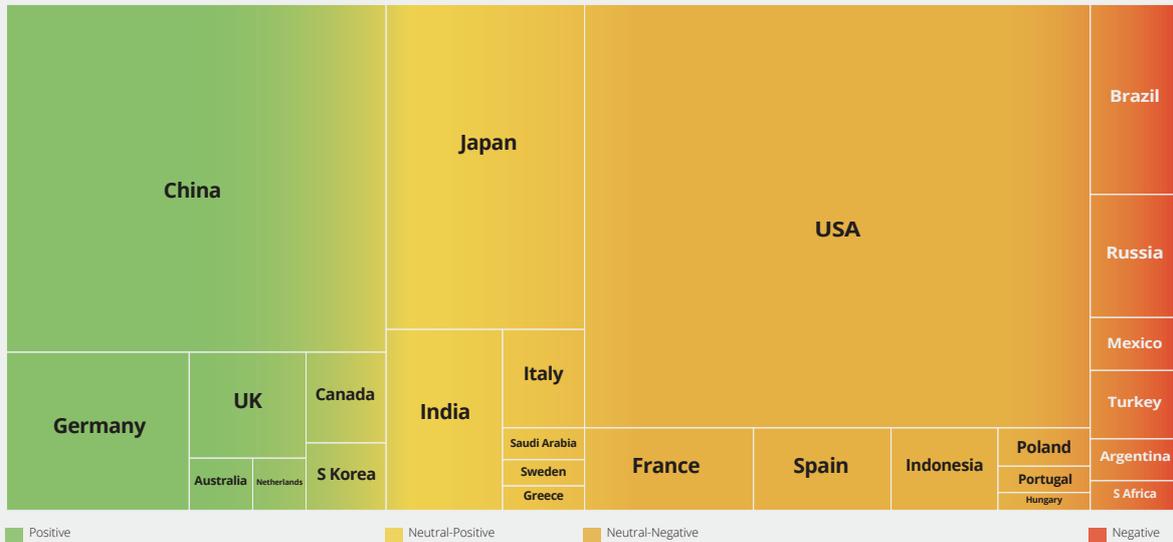
# VAX Populi: Assessing Political Risk, Resilience and Relapse

Every five to ten years, events force investors to revisit the macro framework underpinning investment decisions. These frameworks naturally emphasise economic and market fundamentals, often with a splash of geopolitics. COVID-19 is perhaps the biggest macro event of our lifetime, but a new framework incorporating the expanded risk factors of the pandemic era has yet to emerge. Avonhurst's VAX Populi thesis and accompanying analytical framework aims to help bridge this gap and advance market participants' thinking about the next phase of the pandemic.

With the global political, socio-economic, business and investment ecosystem likely to remain in flux for an extended period, the concept of resilience – the capacity to weather and rebound from challenges – has taken centre-stage. Avonhurst's proprietary tool assessing VAX Populi Risk focuses on the prospects for political risk, resilience, and relapse in the world's 27 largest economies, and provides a forward-looking baseline assessment for thinking about a country's future prospects. We do this by bringing together the most significant factors related to the hardest-to-model political and socio-economic aspects of the pandemic crisis.

## VAX POPULI

COVID-19 RECOVERY OUTLOOK FOR THE WORLD'S MAJOR ECONOMIES (JAN 2021)



**Methodology** // Framework estimates a country's macroeconomic and social vulnerability and the government's capacity for response to the COVID-19 pandemic. Socio-Political capacity scores based on indices that capture structural government effectiveness (WB) and socio-political cohesion levels (OECD). Macroeconomic vulnerability proxied by a country's expected GDP growth for 2021 (OECD), capturing real-economy vulnerability and capacity for response and the economic burden of the pandemic, captured by the actual Covid deaths per mln (John Hopkin's University). © Avonhurst LLP

*“Avonhurst’s VAX Populi thesis and accompanying analytical framework aims to help bridge this gap and advance market participants’ thinking about the next phase of the pandemic.”*

# VAX Populi: Assessing Political Risk, Resilience and Relapse *(continued)*

## Key Findings

Our initial findings suggest reason for optimism about the outlook post-pandemic, particularly in **Asia**, the **UK**, and **Northern Europe**, with the **US**, **Southern** and **Eastern Europe**, **Brazil**, and **Russia** more vulnerable to political and social turbulence.

Contrary to the conventional wisdom, we found no correlation between regime type (democracy vs. authoritarian regime, for example) and pandemic resilience prospects. Instead, a country's COVID-19 resilience and recovery trajectory is better explained by measures of government effectiveness, socio-economic development, and social cohesion.

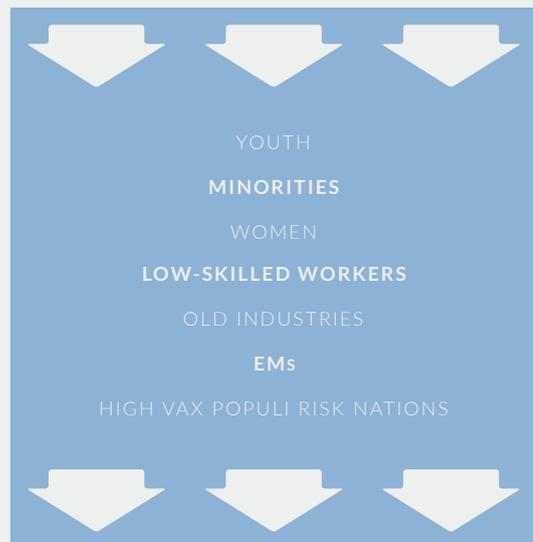
The **private sector** has emerged as the **most trusted institution globally** over the course of the pandemic, highlighting both opportunities and new pressures for business.

In terms of **geopolitical risk**, we highlight the fact that vaccine diplomacy, vaccine nationalism and vaccine disinformation – a new weapon in the geopolitical arsenal – are already destabilising trade relations and further fragmenting the international order.

Important signposts to watch in a country's risk/resilience/relapse trajectory include:

- upcoming elections in 2021-2023, as those could lead to politically-expedient, but less than prudent, economic-management decisions;
- improvements in public trust in government, which could be rebuilt by effective vaccine rollouts and well-targeted support for those hurt most by the pandemic;
- social unrest, which could compound governance and economic-management crises;
- stimulus packages, which could both soften the blow of the pandemic but also address the inequalities that could cause social discontent and harm future economic growth.

## WINNERS AND LOSERS FROM THE PANDEMIC



*“We found no correlation between regime type and pandemic resilience prospects.”*

## VAX Populi: Assessing Political Risk, Resilience and Relapse *(continued)*

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### The Shape of Things to Come: 2021-2030

- COVID-19 is not “the (only) big one,” – government and business must invest in capacity to prepare for the coming pandemic era.
- Low VAX Populi Risk countries will be able to rebound more quickly and withstand future shocks with greater resilience, leapfrogging ahead of their High VAX Populi Risk counterparts.
- Elections taking place in the next 12-24 months in High VAX Populi Risk countries will bear more risk for incumbent governments where pandemic fighting efforts, especially vaccine rollouts, were poorly regarded by citizens.
- Governments in rich countries will be under pressure to re-allocate resources to public health, redress inequalities and fight climate change, resulting in increasing debt burdens, higher taxes and potentially anti-progressive populist blowback.
- Advancing “the building back better” agenda will help keep the private sector in a strong position post-lockdown. Expectations will remain high, increasing the burden on the C-Suite to monitor a wider range of political and social risk themes to maintain high levels of public trust.
- The sharp decline in global public perceptions of US and Chinese leadership will contribute to reduced international willingness to cooperate with Washington DC and greater public support for pressuring China, keeping the risk of trade and security tensions high.
- Vaccine nationalism, diplomacy and disinformation expand the instruments available for countries to project geopolitical power and sow disruption, but falling short of provoking military conflict.

# VAX Populi: Assessing Political Risk, Resilience and Relapse *(continued)*

## Are We Looking at Political Risk the Wrong Way?

Investors have become enamoured with a term borrowed from the US military – “VUCA”; the notion that we are living in a world dominated by volatility, uncertainty, complexity, and ambiguity. This is not without justification given the proliferation of risks that have transpired in the past two decades: 9/11, the Iraq and Afghanistan wars, the Global Financial Crisis, Eurozone Crisis, annexation of Crimea, rising US-China trade tensions, Brexit and the advent of the Trump era have all challenged post-Cold War era hopes for the expansion of globalisation, democratisation, free trade and open markets.

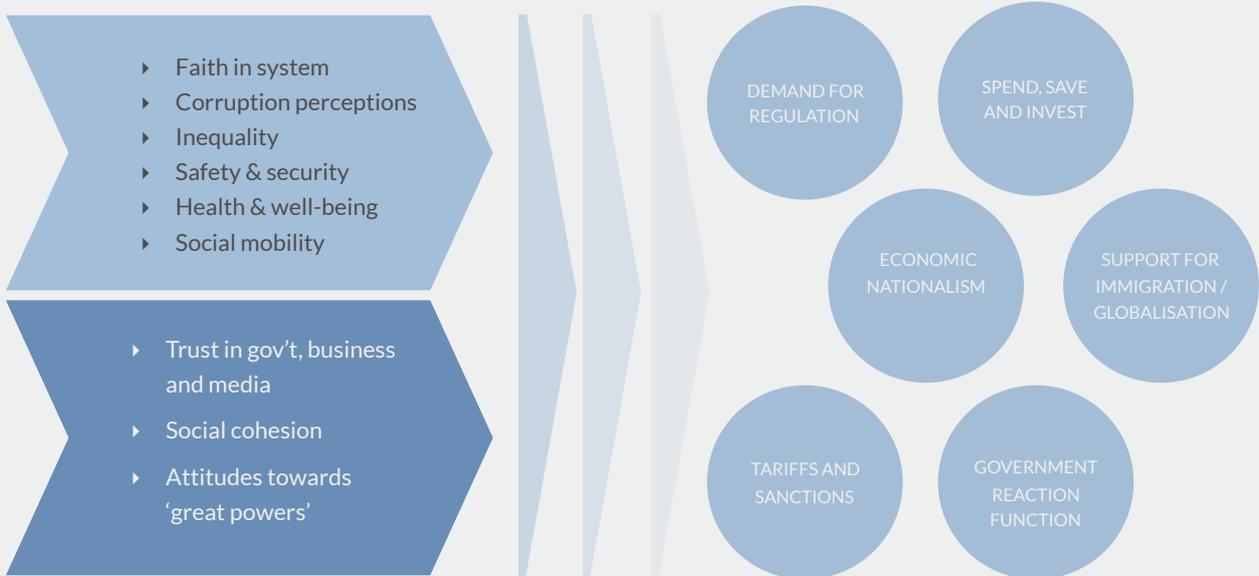
Yet characterising the world as VUCA allows these risks to slip under our radar, dismissed as random externalities we are powerless to anticipate. The management adage “what isn’t measured isn’t managed” can also be extended to political risks, which typically fall outside traditional business silos. Assessing and anticipating “soft” risk factors, however, can be reliably and

rigorously done with both quantitative and qualitative social science methods. The pandemic recovery trajectory, for example, can be better-anticipated through resources such as our VAX Populi tool.

We advise against narrowly characterising risks as “signal” vs. “noise”. We are also wary of artificially forcing outcomes into the categories of base case vs. tail risk outcomes, which excessively compress the probability weighting of events that have a reasonable chance of happening.

Our approach is non-partisan, systematic and data-driven, underpinned by political science theory and historical comparisons, with a healthy dose of Bayesian probabilistic thinking. We encourage investors to stress test plausible scenarios and our analytical approach is designed to help conduct such exercises as an integral part of strategy, asset allocation and transaction analysis.

## POST PANDEMIC DASHBOARD // KEY “SOFT” DRIVERS OF POLICIES IMPACTING THE BUSINESS ENVIRONMENT



*“The management adage ‘what isn’t measured isn’t managed’ can also be extended to political risks.”*

# VAX Populi: Assessing Political Risk, Resilience and Relapse *(continued)*

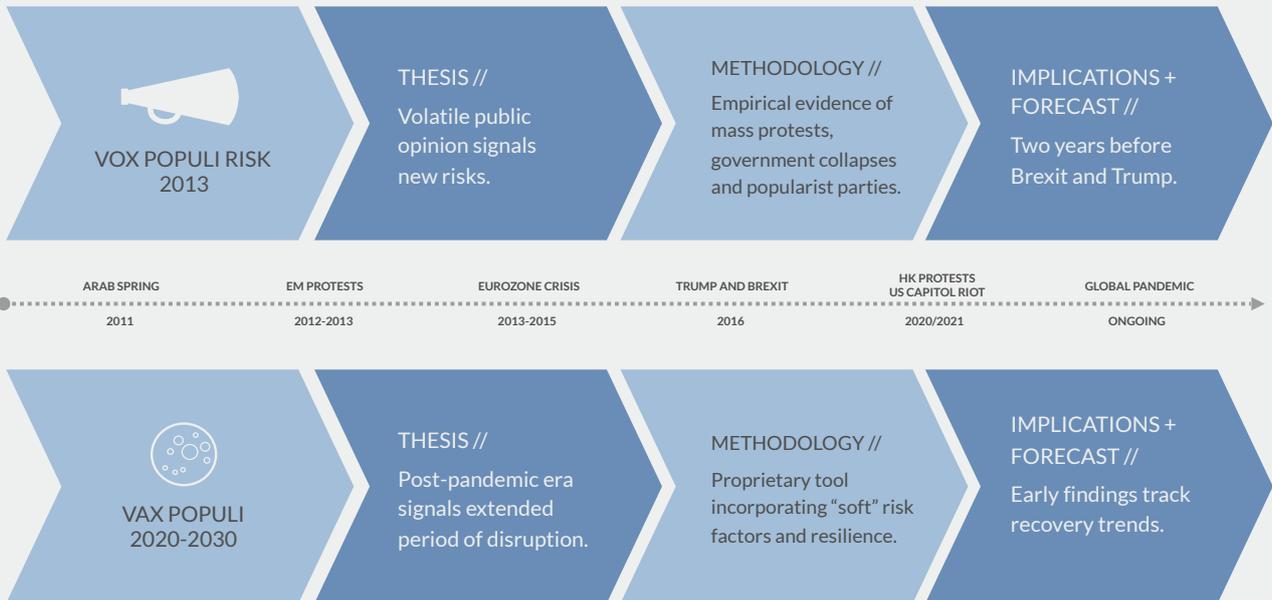
## Chronicle of Political Risks Foretold

In 2014 Tina Fordham<sup>1</sup> initially documented the trend of a wave of global political risk manifested in evidence of rising mass protests, government collapses, referendum risks and geopolitical risks in *Taking it to the Streets: The New Vox Populi Risk*, using a political science-based approach combined with financial markets experience. The central assumption of the Vox Populi thesis was defined as, “shifting and more volatile public opinion that poses ongoing, fast-moving risks to the business and investment environment”. The report confirmed the “dramatic and measurable increase in the number of elections, mass protests

and government collapses – 54% compared to the previous decade – as well as the proliferation of new and fringe political parties, many of which were anti-establishment”.

Published over two years before the election of Donald Trump and the UK referendum to exit the EU, the Vox Populi thesis continues to be much cited, and indeed, retains considerable explanatory validity, influencing many of the assumptions in this framework. In our view, the pandemic will likely bring about a revival of Vox Populi risk, and provides a robust basis for our present argument.

## ANTICIPATING THE FUTURE IN A ‘VUCA’ WORLD: FROM VOX POPULI TO VAX POPULI RISK



<sup>1</sup> Avonhurst Partner and Head of Global Political Strategy.

<sup>2</sup> <https://ir.citi.com/MLFFG3mEHO39FBGJhaYs8f02RBUR5gk4DwtUNhgcMXG%2Bi%2FGKPG8GW8VegMsWPk40v5U3DEmh%2Bjo%3D>

## Defining and Assessing VAX Populi Risk

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As we evolve from Vox Populi Risk to VAX Populi, we expect disruptive, challenger political leaders and parties to continue to hold sway amongst divided electorates, particularly where trust in government and of fellow citizens is low and living standards have stalled or are declining.

We emphasise that the factors we are tracking are not purely structural, irreversible, or set in stone. Indeed, the emergence of compelling public-centred leadership, sound economic policies targeting reducing inequalities, improving social mobility and limiting economic distortions and redressing the burden of the costs of the crisis (in financial and opportunity terms, for younger generations and working-age people) can bolster resilience to future risk and reduce the risk of protests, populism and polarisation. Destabilising outcomes are not inevitable, but reform requires a degree of consensus often lacking in low-trust societies.

The political risk, resilience, and recovery outlook for different countries diverges significantly both within and between developed and emerging markets, as the world continues to grapple with the multiple and severe economic, social, and political crises unleashed by the COVID-19 pandemic. These “cascading” crises come at a time of heightened weakness of global alliances, further undermining management of the pandemic.<sup>3</sup>

Although not a traditional political risk event, the pandemic’s impact is highly contingent upon each country’s political volatility, government effectiveness, public trust in the regime and cultural norms, factors which are not typically included in traditional investment research. We believe that capturing, tracking, and monitoring these factors, measured against the backdrop for economic rebound, is crucial to assessing the trajectory for recovery.

*“These ‘cascading’ crises come at a time of heightened weakness of global alliances, further undermining management of the pandemic.”*

<sup>3</sup>Nathan Sheets via Bloomberg: <https://www.bloomberg.com/news/articles/2020-03-13/committee-to-save-world-s-no-show-puts-global-economy-on-brink>

## Defining and Assessing VAX Populi Risk *(continued)*

### VAX Populi Approach

- Systematically monitor and assess the socio-economic and political risks associated with the transition from the COVID-19 pandemic to the rebound to pre-pandemic levels.
- Compare country-level political and social capacity as well as macro-economic and social vulnerability, for the purpose of providing a baseline outlook for crisis mitigation and recovery. A country's VAX Populi risk score is relevant for election forecasting, for example in providing a snapshot of the scale of demand for political change.
- Provide a data-driven, forward-looking, and comparative basis for making assessments across developed and emerging market nations, identifying commonalities and outliers across groups of country peers.
- Contribute to the understanding of the socio-political aspects of the pandemic, now in the immediate aftermath and in the future, with the appreciation that one of the main constants throughout human history has been pandemics.

Our framework is not exhaustive; it omits some variables (for instance, some important economic and healthcare factors) that impact how countries continue to manage the crisis; we feel these are extensively covered elsewhere, and have opted to focus on

the harder-to-model “soft risks”. Our objective is to capture the primary dimensions impacting the political risk, resilience, and recovery outlook of countries to COVID-19, and set out our research agenda for continued coverage via Avonhurst's *The Wavelength*<sup>4</sup> podcasts and reports.

### VAX Populi Rationale

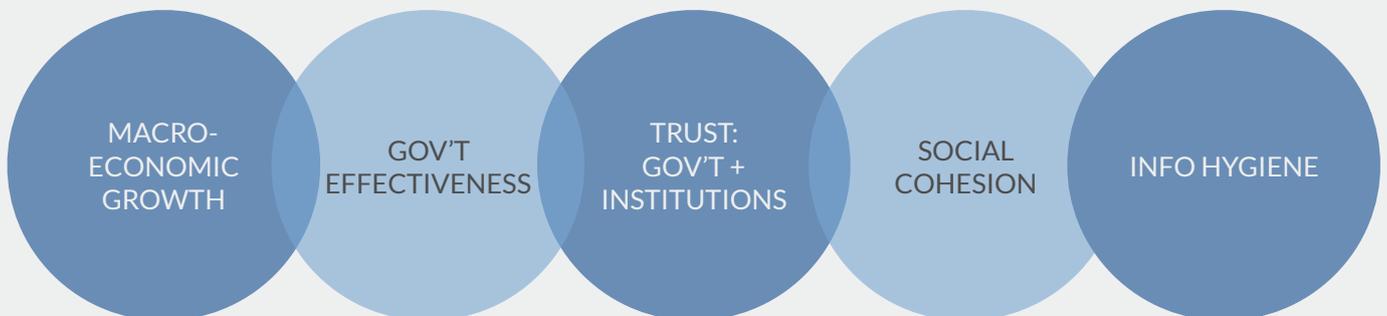
VAX Populi goes beyond evaluating current conditions and policy and provides directional assessments of how politics are likely to affect a country's recovery prospects over the next twelve months, considering both structural and cyclical, pandemic-relevant social factors.

As a result, VAX Populi provides a framework that flags political risks and opportunities under-appreciated by many political and market observers. Our framework stress-tests prevailing assessments of the pandemic's management by the world's major economies and further highlights important socio-political risks to watch. The VAX Populi framework is dynamic; for example, as populations grow less wary about vaccination, if governments quiet social discontent, or if trust levels increase, countries can improve their scores.

## AFTER THE STORM

MEASURING VAX POPULI RISK - PROSPECTS FOR RISK, RESILIENCE AND RECOVERY

TO RECOVER AND WITHSTAND THE CHALLENGES AHEAD, COUNTRIES BENEFIT FROM HIGH CONCENTRATIONS OF THE FOLLOWING CHARACTERISTICS



+/- VACCINATION WILLINGNESS, SOCIAL UNREST AND ELECTION PROXIMITY

WHAT'S NOT RELEVANT? DEMOCRACY VS AUTHORITARIAN REGIME

<sup>4</sup> <https://avonhurst.com/news> to see latest reports and podcasts.

## Defining and Assessing VAX Populi Risk *(continued)*



### The Future of Political Risk Practice *Interview with Sean West, Avonhurst Senior Advisor*

**Q: Sean, you've been involved in the field of political risk on both the analyst and the business side for many years. How do you think the pandemic will impact the practice of political risk analysis?**

A: The pandemic crisis increases the primacy of global macro analysis. Every five to ten years we have an event that resets the macropolitical framework. The pandemic is one of those events, just like 9/11 or the global financial crisis. One of the biggest mistakes an analyst can make is to simply chase the news and try to stay one step ahead of an unfolding crisis without realising that all assumptions need to be tested. This is particularly hard to do with events of global significance because international relationships are tested and reset; economic growth implications convert into political implications over time; and, in the case of the pandemic, the cycle can repeat itself much faster than in other crises because the driver is an exogenous factor – virus mutation.

Ultimately, this means that political risk experts will need to develop new global frameworks that they believe will hold over such an uncertain 3-5-year period, which they can then update to take account of actual events and changes. Medium-term predictions are perilous enough, but ultimately the crisis will lead to a sorting of which geopolitical experts can integrate all the moving pieces and which are primarily country analysts who are limited to their area of expertise.

**Q: What about the demand from the client side? What pre-existing trends are likely to be accelerated?**

A: In line with the above, clients will realise that they actually need to prioritise framework development rather than news and information chasing. Such development is increasingly data-driven via technology tools because it's very hard for analysts to predict the evolution of such a multifaceted global system through data and experiences trapped in their heads. For fast money, this means generating conviction on themes about how the global system will change in the near-term, like the evolution

in the US-China power dynamic. For longer-term investors, this means building resilience around trends that are durable no matter which way the pandemic goes, like the acceleration of technological change.

**Q: Turning to Avonhurst's VAX Populi thesis, as a former US analyst, what do you make of the comparatively low score for the US? Given high expectations of a US growth rebound and continued financial market performance, how should investors interpret high US VAX Populi Risk?**

A: To me, the US Vax Populi score represents the risk that things go wrong in an economy that is otherwise poised for success. Right now, markets can cheer the massive response package that has just been ushered through in the US, and market participants tend to shrug off political risk in the US so long as economic fundamentals are good. But we saw that tested at the beginning of the pandemic and we may see it again if there are further waves of contagion that are not easily dealt with via existing vaccines. The US federal system is quite fragmented and this matters a lot with respect to crisis response and health delivery. Unlike in the UK where one has had to make a call on whether the NHS had the right strategy and whether it could deliver, in the US one has to make 50 different calls about effectiveness. Because the states' powers are so strong, as the ramifications of the pandemic feed back through political channels, there will be 50 different reaction cycles which complicates the ability to have a very clear sense of when the US will be back open for business.

To be sure, the federal government has a prominent role and Democrats currently have the power to move through an agenda, but most presidents lose seats in congress in their first mid-term election, so the likelihood that Biden faces a divided Congress or a Republican controlled-congress is higher than that he retains control. This would likely imperil his ability to move swiftly in response to evolving events – all of which is captured in the problematic US Vax Populi score.

## VAX Populi Framework

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The VAX Populi framework used in this analysis estimates a country’s macroeconomic and social vulnerability and the political and social capacity for response to the COVID-19 pandemic.

Countries vary widely in their **economic and social vulnerability** to the pandemic and thus their exposure to the shocks it generated. We proxy this vulnerability with a set of three variables – a country’s expected GDP growth for 2021, Human Development Index score, and COVID-19 deaths per million:

- **COVID-19 deaths per million** data published by John Hopkin’s University captures a country’s capacity to effectively treat patients as well as the scar the pandemic has left on the economy and the population.
- A country’s **2021 GDP growth forecast** by the World Bank proxies the burden of the pandemic on each country (the greater the expected contraction, the more challenging the management of the economy) but also the economic capacity for response, both in terms of need and resources for stimulus.<sup>5</sup> While this indicator might be skewed towards high growth economies, it helps us flag markets of opportunity, rather than just how well a country has deflected the pandemic’s economic blow.
- Finally, we found the United Nations Development Programme’s **Human Development Index** (HDI), which factors in life expectancy at birth, years of schooling, and wealth per capita, to be one of the strongest predictors of the severity of the COVID-19 shock. Through access to education, HDI captures and thus proxies trust in science and as a result, expected following of public health guidance on mask wearing, which has been consistently found to be the most effective epidemiological management strategy available. Through life expectancy, HDI is a proxy for equitable and quality healthcare. And through wealth per capita, HDI captures the level of resources available to the population to weather the COVID-19 shock. In other words, HDI represents the overall well-being of a society, and thus captures its social vulnerability to the pandemic as well as the socio-economic capacity to rebound from it.

Countries also vary widely in their political and social capacity to manage the pandemic. **Political capacity** is an important factor impacting the management of a country’s response to a crisis and as a result, its resilience and recovery outlook. The VAX Populi political capacity scores are based on both structural and cyclical variables:

- We use the World Bank’s indicator for **government effectiveness** as well as our analysts’ assessments of government instability due to cyclical events. Government effectiveness reflects the quality of public services, the efficacy of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. We found government effectiveness, rather than regime type, to be one of the strongest predictors of the severity of the COVID-19 shock.
- On the cyclical side, we asked analysts to track events, such as upcoming elections, ongoing protests, natural and manmade disasters, and scandals. Using a structured methodology, we then converted those event counts into a set of **political volatility** scores.
  - On the one hand, elections have long been known to impact the government’s management of the economy in predictable cycles. For instance, in the last several months in the run up to an election, governments are most motivated to pander to public sentiment; as a result, they might make less than prudent economic-management decisions by choosing macro-economically suboptimal policies that are politically expedient.
  - On the other hand, protests, disasters, and scandals can distract authorities and put their very ability to govern at risk. As a result, governments are liable to similarly pursue macro-economically suboptimal policies to recover their standing in the eyes of the public.

*“Countries vary widely in their economic and social vulnerability to the pandemic and thus their exposure to the shocks it generated.”*

<sup>5</sup> An alternative measure would be the difference between the current forecast compared to the pre-pandemic forecast.

## VAX Populi Framework *(continued)*

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The **social capacity** of a country also impacts its regime’s response to a crisis, by undermining or supporting policy implementation. We proxy this capacity with a set of variables: a structural one - social cohesion, operationalised as trust in government and society, and a cyclical one – vaccine acceptance rates. The combined trust in government and generalised trust in society as well as vaccine acceptance readiness can be expected to shape the vaccine roll out in each country.

- **Social cohesion**, or the strength of social norms has been found to be associated with a country’s success in limiting COVID-19 cases and deaths.<sup>6</sup> Countries with strict norms have fewer cases and deaths per million compared to more permissive countries with weaker norms. Socially-tight groups cooperate much faster under threat and have higher survival rates than socially-loose groups. The existence of strict social norms is documented to help groups coordinate at times of crisis and unite against threats.
- We also track social **readiness to accept a COVID-19 vaccine** by using IPSOS’ and Edelman’s publicly available survey data. Vaccines are a critical element of pandemic management as a large percentage of a country’s population must be vaccinated in order to reach herd immunity (that is, the level at which the spread of COVID-19 would become difficult).

We apply equal weights to all variables outlined above. Country scores are assigned through a structured methodology that converts a series of quantitative and qualitative inputs into an overall raw score, which, depending on the value, is associated with one of four outlooks:

- **Positive:** Socio-political factors in a country will have an overall positive impact on the macro business environment over the next twelve months.
- **Neutral-Positive:** Socio-political factors in a country will have an overall positive impact on the macro business environment over the next twelve months but there are a number of risks that put the country’s recovery at risk.
- **Neutral-Negative:** Socio-political factors in a country will have an overall negative impact on the macro business environment over the next twelve months but there are significant positive developments that could accelerate the country’s rebound.
- **Negative:** Socio-political factors in a country will have an overall negative impact on the macro business environment over the next twelve months.

A change in a country’s outlook serves as notice that the recovery outlook is changing, either structurally or cyclically. Avonhurst plans to monitor these in our monthly report coverage.

To produce the VAX Populi Index, we use publicly available information, such as data from the World Bank, UNDP, OECD, John Hopkin’s University, Edelman and IPSOS survey data, combined in our proprietary VAX Populi model. The data analysed and presented here is dated January 2021. We plan to update the Index monthly.

*“The combined trust in government and generalised trust in society as well as vaccine acceptance readiness can be expected to shape the vaccine roll out in each country.”*

<sup>6</sup> [https://www.thelancet.com/journals/lanplh/article/PIIS2542-5196\(20\)30301-6/fulltext](https://www.thelancet.com/journals/lanplh/article/PIIS2542-5196(20)30301-6/fulltext)

## VAX Populi Framework *(continued)*

|              | Development | Government Effectiveness | COVID-19 Deaths/mln | Govt-Soc Trust | Vaccine Acceptance | GDP 2021 | Political Volatility |
|--------------|-------------|--------------------------|---------------------|----------------|--------------------|----------|----------------------|
| Canada       | 4           | 4                        | 3                   | 3              | 3                  | 2        | 4                    |
| Australia    | 4           | 4                        | 4                   | 3              | 3                  | 2        | 3                    |
| Netherlands  | 4           | 4                        | 2                   | 4              |                    | 3        | 3                    |
| Denmark      | 4           | 4                        | 3                   | 3              |                    | 1        | 4                    |
| China        | 1           | 2                        | 4                   | 3              | 4                  | 4        | 4                    |
| Germany      | 4           | 4                        | 3                   | 4              | 2                  | 3        | 2                    |
| UK           | 4           | 3                        | 1                   | 4              | 3                  | 3        | 3                    |
| South Korea  | 3           | 3                        | 4                   | 2              | 4                  | 1        | 4                    |
| India        | 1           | 1                        | 4                   | 3              | 4                  | 4        | 3                    |
| Greece       | 2           | 2                        | 3                   | 3              |                    | 3        | 4                    |
| Sweden       | 4           | 4                        | 2                   | 3              |                    | 1        | 3                    |
| Japan        | 3           | 4                        | 4                   | 2              | 2                  | 1        | 3                    |
| Italy        | 3           | 2                        | 1                   | 4              | 2                  | 4        | 3                    |
| Saudi Arabia | 2           | 2                        | 4                   | 1              |                    |          | 4                    |
| Portugal     | 2           | 3                        | 2                   | 3              |                    | 3        | 3                    |
| Spain        | 3           | 3                        | 1                   | 4              | 1                  | 4        | 2                    |
| Poland       | 2           | 2                        | 2                   | 3              |                    | 3        | 3                    |
| France       | 3           | 3                        | 1                   | 4              | 1                  | 4        | 1                    |
| Indonesia    | 1           | 1                        | 4                   | 2              |                    | 3        | 3                    |
| Hungary      | 2           | 2                        | 1                   | 3              |                    | 3        | 2                    |
| USA          | 3           | 3                        | 1                   | 3              | 1                  | 2        | 2                    |
| South Africa | 1           | 2                        | 3                   | 1              | 2                  | 1        | 4                    |
| Brazil       | 1           | 1                        | 2                   | 2              | 4                  | 2        | 2                    |
| Turkey       | 1           | 1                        | 3                   | 2              |                    | 2        | 3                    |
| Argentina    | 2           | 1                        | 2                   | 2              |                    | 2        | 1                    |
| Russia       | 2           | 1                        | 3                   | 2              | 1                  | 1        | 2                    |
| Mexico       | 1           | 1                        | 1                   | 1              | 3                  | 1        | 3                    |

*“Countries with strict norms have fewer cases and deaths per million compared to more permissive countries with weaker norms.”*

## COVID-19 Resilience and Recovery Outlook

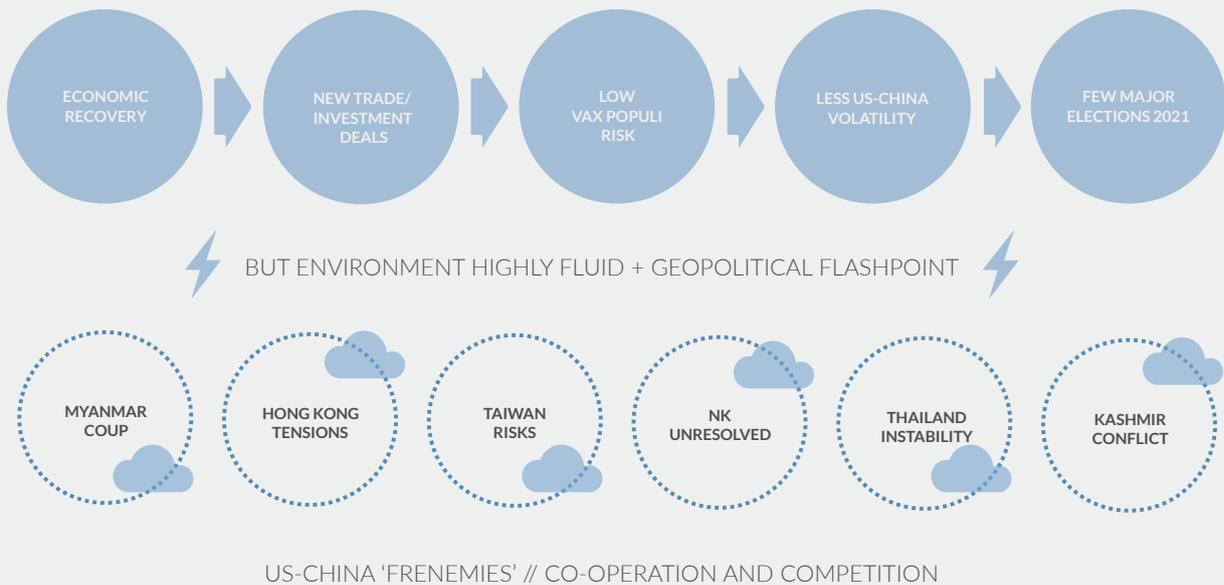
Having applied the VAX Populi framework to assess the 27 most systemically-significant economies on their post-pandemic recovery outlook, our key conclusions include:

**First**, we find enduring structural differences between developed and emerging markets. These are rooted primarily in the higher social vulnerability in **emerging markets** countries due to their lower development levels as well as lower government effectiveness and social cohesion, which impede their COVID-19 management capacity. This suggests that political risks associated

with social discontent and persisting or even rising socio-economic inequalities within those countries will continue to undermine their economic management.

The negative outlook for VAX Populi Risk in most major emerging markets, such as **South Africa, Brazil, Mexico, Argentina, Russia, and Turkey**, will weigh down the rebound of both these individual countries and could potentially increase the risk of an EM debt crisis.

### ASIA EMERGING FROM PANDEMIC WITH STRENGTH... BUT REGIONAL ENVIRONMENT REMAINS CONTESTED



*“The negative outlook for VAX Populi Risk in most major emerging markets could potentially increase the risk of an EM debt crisis.”*

## COVID-19 Resilience and Recovery Outlook *(continued)*

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There are important exceptions within EM, however – most notably, **China** and **India**. Beijing’s relatively effective management of the pandemic has been widely noted, prompting some in the Chinese government and abroad to speculate that non-democratic regimes are better positioned to respond to this and other crises. In China’s particular case, its top-down, state-led political system, in which any perceived threat to the leadership’s agenda is quickly quashed, has been expanded to allow the ruling party to drive its vast bureaucracy in pursuit of pandemic management in a manner that would be nearly impossible anywhere else in the world.<sup>7</sup>

While we found no correlation between a country’s regime type and COVID-19 toll, China’s positive recovery outlook throws into sharp relief the country’s confrontation with the West. China’s leadership is increasingly vocally attributing its successes to its governance model, supporting for other countries’ efforts, and pointing to signs of decline in the West. While many on both sides of the Atlantic see Beijing as a threat to the liberal international order, it remains to be seen how effective they will be in building coalitions that can challenge China’s influence, given the steady erosion of trust in the US as a reliable partner. Either way, the rivalry is likely to shift away from trade towards the frictions due to differing industrial and digital economy models, and some limited cooperation is possible on global issues such as climate change and health security. China is also likely to turn to “Vaccine Diplomacy” as a new tool in its geopolitical arsenal.

A comparison of **China** and **Russia** is instructive given the great power ambitions and the non-democratic nature of the political regimes in these countries. China’s much higher growth outlook, social cohesion, vaccine acceptance, and political stability underpin its better recovery outlook. A focus on job creation and social-security reform, alongside restrictions on social mobilisation, will prevent social unrest and broaden popular support for the regime.

While it is a bit more developed, **Russia** has lower government effectiveness and a larger scar on the economy left by the pandemic. Moreover, the stand-off between the West and Russia is likely to increase under the new US administration. The Biden Administration is already taking a tougher stance toward Moscow. In addition, the arrest and jailing of dissident Alexei Navalny ahead of autumn parliamentary elections likely portends a protest summer in Russia, irking the Kremlin.

**India** also stands out within the emerging markets group with its positive-neutral recovery outlook. The pandemic’s toll on the country has been relatively (and counter-intuitively) small and vaccine acceptance is high. Moreover, India has deflected the pandemic’s economic blow relatively well and despite some recent social discontent, the Modi government remains stable and popular, backed by a comfortable parliamentary majority and thus capable of supporting economic growth following the pandemic. Still, India faces some non-trivial risks in undertaking the herculean challenge of vaccinating a sizable swath of its 1.4 billion people – most importantly, low levels of government effectiveness and of development (and thus likely poor citizen compliance with public health guidelines). Additionally, since India produces a majority of all vaccines globally and wishes to help neighbouring countries in need by supplying vaccines, balancing global demand and Indians’ needs could prove difficult and could threaten social stability.

**Second**, there is further substantial variation in the recovery outlooks of countries in the **advanced industrial world**.

**US vs UK:** The US and UK share the unfortunate distinctions of being among the countries experiencing the highest COVID-19 death tolls in the world and similarly weak government management of the pandemic, plagued by poor communication and erratic policy response. The outlook for UK recovery and resilience, as measured by its VAX Populi rating is stronger than the US. This is due to higher UK social cohesion and vaccine acceptance, and slightly better growth prospects and development levels. Moreover, the UK government is likely to benefit from the fact that it has a solid majority, doesn’t face new elections until 2025, and, thanks to the Fixed-term Parliaments Act, dissolving the government is extremely difficult. A harbinger of the expected rebound is the UK’s more effective vaccine rollout – more than 15% of the population had received a vaccine by mid-February.

*“China is also likely to turn to ‘Vaccine Diplomacy’ as a new tool in its geopolitical arsenal.”*

<sup>7</sup> Hernandez, X (2020b), “How China Brought Nearly 200 Million Students Back to School”, New York Times, 12 September.

## COVID-19 Resilience and Recovery Outlook *(continued)*



### The UK's Encouraging Outlook *Interview with Lord Gavin Barwell, Avonhurst Senior Advisor*

**Q:** Lord Barwell, from your vantage point as a member of the House of Lords and former chief of staff to Prime Minister Theresa May, how would you characterise the government's response to the pandemic crisis? How it has evolved through the vaccine rollout?

**A:** Mixed. The UK's demography (large elderly population, many of them with underlying health conditions; densely populated, particularly England; highly connected to the global economy) made it particularly vulnerable to COVID-19, but the level of "excess deaths" and economic harm we have experienced were not inevitable. The government has repeatedly been too slow to go into lockdown and too quick coming out. The original mistake last March was probably forgivable given the unprecedented nature of the threat and our lack of testing capacity at the time, which meant decision-makers did not have access to up-to-date data; the mistakes in the autumn much less so. On the other hand, there have been some real policy successes: the standing up of the Nightingale hospitals, the economic interventions, the expansion of testing capacity and above all the vaccine contracts, rapid regulatory authorisation and roll out.

**Q:** Having served as a former negotiator on Brexit as well, which formally took place at the start of this year at arguably a low point in the pandemic trajectory, what is your sense of the combined impact of the pandemic and Brexit? UK GDP dropped a whopping 10 points last year, a huge decline outside of wartime. Can the relative efficacy of the UK's vaccine rollout mitigate some of the earlier damage? Or will that effect be temporary?

**A:** Economically I think the two events are very different. Lockdown had an immediate, catastrophic economic impact, wiping off about a quarter of GDP in six weeks. Brexit, on the other hand, is a slow puncture – it will take some time for the full impact to be seen and thus far it has been hidden by the pandemic. The vaccine rollout can ensure a quicker and more sustained recovery, but the recent Office for Budget Responsibility forecast is clear that we won't get back to where we would have been had there been no Brexit and no pandemic – and that in the medium term, Brexit is the more damaging (it said the pandemic will lower the supply capacity of the economy by around 3% relative to pre-virus expectations and that Brexit will entail a long-run loss of productivity of around 4% compared with remaining in the EU).

*“The government has repeatedly been too slow to go into lockdown and too quick coming out.”*

## COVID-19 Resilience and Recovery Outlook *(continued)*

**Q: Thinking about how the VAX Populi framework is constructed, what is your sense of how the factors that put Britain in the green/yellow zone, suggesting strong resilience, will serve the country going forward?**

A: I agree that these should serve the country well. The encouraging thing is that although trust in politics has diminished in recent years, trust in government has remained comparatively high and I suspect the success of the vaccine rollout compared with most other countries will reinforce that.

**Q: What do you see as the biggest challenges for the UK in the 1-2 years ahead?**

A: My top five – in no particular order – would be:

1. Levelling up – this is the government’s main domestic priority, but it is unclear what metric it will use to measure success. If the objective is to narrow the gap in GDP/head between different parts of the country, that is admirable, but is a long-standing problem and it will not be easy to solve.

2. Decarbonisation – this is the other key government priority with the UK hosting the COP26 conference later this year. The UK is ahead of most countries, but if we are to avoid significant warming, the majority of the remaining reduction in greenhouse gas needs to happen quickly, and that is a huge policy challenge.

3. The future of the UK – Boris Johnson’s election as leader of the Conservative Party and the harder Brexit he has pursued have led to step change in support for independence. If the SNP win a majority in May’s Scottish Parliament elections, they will claim it as a mandate to hold a second independence government. The UK government will then have to decide whether to allow them to do it or fight them in the courts. There is also pressure for a referendum in Northern Ireland.

4. Fiscal consolidation – the Chancellor announced his plans in the recent Budget. The two key questions appear to be what effect will the Corporation Tax rate increase scheduled for 2023 (mitigated to an extent by a big short term tax cut in the form of the super deduction on investment) have on the attractiveness of the UK, and are the government’s spending plans too tight (as evidenced by the trouble it is already in on nurses pay)?

Austerity is a policy of the past – the Chancellor couldn’t have been clearer in his recent Budget statement when he said “When we said at the last election that we were the party of public services, people believed us – and they were right to believe us” (although his opponents would point out that his spending plans probably mean ongoing austerity in some of the lower priority departments in order to fund big increase in spending on the NHS, schools, the police and infrastructure).

5. The relationship with the EU – can the two sides find a way to make the Northern Ireland Protocol politically sustainable and is the government interested in the compromises that would reduce some of the friction introduced into the wider GB/EU trading relationship?

*“If the objective is to narrow the gap in GDP/head between different parts of the country, that is admirable but is a long-standing problem and it will not be easy to solve.”*

## COVID-19 Resilience and Recovery Outlook *(continued)*

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In contrast, US political and social stability deteriorated significantly throughout 2020 and spiked during the most acute pandemic period, coinciding with the contested transfer of the presidency from Donald Trump to Joe Biden (volatility increased especially with the Black Lives Matter protests against racial inequality, Trump's attempts to discredit the electoral process, and the two failed attempts to impeach him). Political divisions are unlikely to subside in the short term as neither Democrats, nor Republicans will want to appear to cede ground ahead of the 2022 mid-term elections. Moreover, both parties will continue to struggle to reconcile their internal divisions. Such social and political volatility and the Democrats' razor-thin Senate majority will likely weigh on government effectiveness as the Biden administration pursues an ambitious policy agenda to manage the pandemic and implement progressive structural reform.

Having said that, the US VAX Populi score could shift as a result of the change in government, which took place in late January in the middle of our data collection period. Such moves as the new US fiscal stimulus and efficacy of the vaccine rollout programme, which has gained momentum, could positively impact the US outlook in the future.

**Europe's Worsening Outlook:** Turning to two of Europe's continental economic powerhouses with similar social cohesion and growth outlooks, **Germany** and **France** – both face a combination of local, regional and national elections over the course of 2021-2022, a period we assess as particularly sensitive to pandemic-related political fallout. **Germany's** higher VAX Populi rating is driven by higher government effectiveness, demonstrated by a better management on the pandemic and a much lower COVID-19 death toll weighing down the country's recovery. Germany also has higher development, vaccine acceptance, and political stability. While the current German chancellor, Angela Merkel will step down this year after 15 years

in power, policymaking in Germany will likely remain centrist and consensus-oriented, despite some social unrest and "pandemic fatigue" in the country, as radical parties are likely to remain out of the next governing coalition. Growing public discontent over Germany's sluggish vaccine rollout and possible fragmented next governing coalition, however, poses a risk to be watched.

In contrast, France is expected to face higher social and political volatility. A series of defections from governing parties do not threaten the government's majority in the immediate term, as the opposition remains fragmented and ineffective. However, the government's tough stance on terrorism and structural reform efforts plus its ambitious plans to address climate change have recently met strong resistance. Social unrest is likely to rise in the coming months as public support for policies to manage the pandemic is weakening and the vaccine rollout is weak. Protest risk, which had previously hampered economic activity in the capital and mobilised France's populist opposition, is likely to revive as President Macron pursues a reinvigorated climate change agenda, bearing in mind that the original catalyst to the Yellow Vest movement was a proposed rise in petrol tax. While Emmanuel Macron is, according to current polls, a narrow favourite to secure re-election in 2022, numerous risks remain, including continued economic pain in the services- or tourism-oriented economy and a resurgence of public protests. A populist challenge in 2022 French elections is one of the major VAX Populi-related political risks to watch, with regional elections scheduled for June 2021 a key signpost.

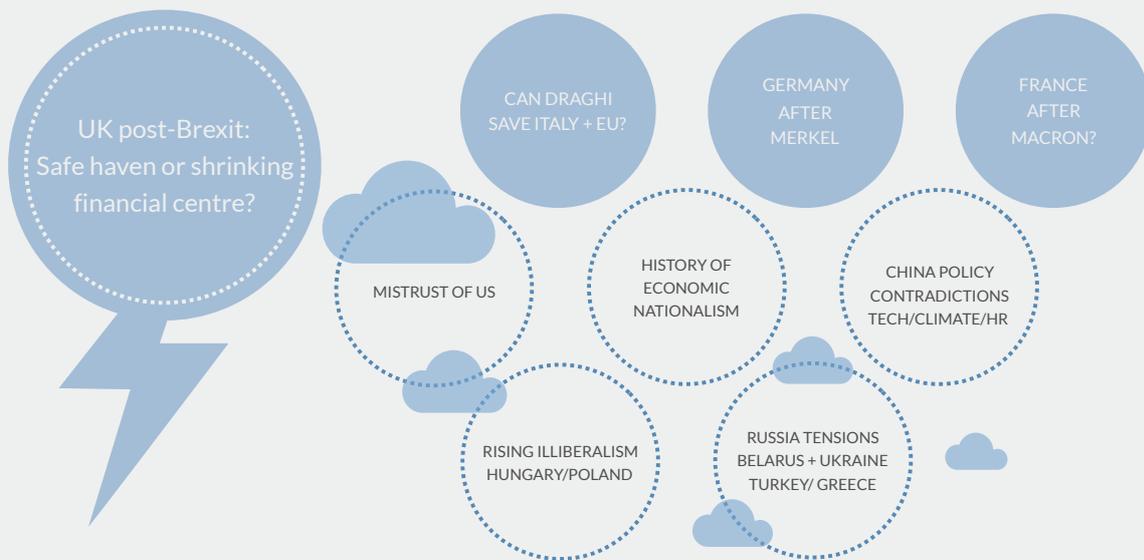
The French case highlights what is likely to be a future political risk flashpoint in the post-pandemic environment: increased awareness of the role of climate change in the pandemic emergency and the corresponding government move to take stronger action to contain it will be at loggerheads with those employed in the sectors that will be affected, namely heavy industry, typically in the very regions the most prone to populism.<sup>8</sup>

*"US political and social stability deteriorated significantly throughout 2020."*

<sup>8</sup> See "Green Wedge? Mapping Dissent Against Climate Policy in Europe", Counterpoint <https://counterpoint.uk.com/projects/climate-policy-in-a-post-covid-19-europe/>

# COVID-19 Resilience and Recovery Outlook *(continued)*

## EUROPE // HIGH RISK OF POST-PANDEMIC FALLOUT



EU WEATHERED PANDEMIC WELL, BUT ECONOMIC FALLOUT + VAX POPULI RISK WILL CHALLENGE LEADERSHIP

**Italy**, the second-largest economy in the EU--historically prone to political instability and sensitive to market fluctuations – may surprise with its neutral-positive rating, particularly being the first country in Europe to be hit hard by the pandemic. Yet, Italy’s relatively high level of development, social cohesion, growth prospects, and expected near-term political stability provide a reasonable basis for optimism about Italy’s prospects for resilience. The country’s recent narrow escape from early elections following the installation of former ECB Chief Mario Draghi as Prime Minister will limit political and market volatility for the short-to medium-term.

Lastly, **Sweden** has taken a distinctive approach to pandemic management by initially taking a permissive strategy. The government has since adopted more stringent restrictions amid a second wave of infections, which saw confidence in the government fall in the middle of a high second pandemic wave. While the pandemic has taken a relatively high toll on the economy, high development levels and government effectiveness are likely to support Sweden’s resilience prospects and rebound. Something of an outlier, Sweden highlights that poor pandemic management may not necessarily lead to weak recovery prospects. However, weak economic growth prospects and modest social cohesion still pose risks to Sweden’s recovery. Furthermore, the risk of a pre-term election remains elevated, given the fragility of the governing coalition and some political volatility caused by the pandemic and the sluggish vaccine rollout.

*“Sweden highlights that poor pandemic management may not necessarily lead to weak recovery prospects.”*

## COVID-19 Resilience and Recovery Outlook *(continued)*



### The Great Gatsby Scenario – Reasons for Optimism *Interview with Dr. Pippa Malmgren Avonhurst Senior Advisor*

**Q: In your work on tech and innovation, you have been a proponent for the notion of the post-pandemic era as a new Roaring 20's. Can you take us through your argument?**

A: The recovery will not be linear. Instead of thinking about an “L” shape or a “V” shape recovery, think quantum. Many things will happen at once. It will be like the 1920's when we recovered from The Spanish Flu and WW1. Some were so happy to be alive that they spent like mad on living it up. They formed the foundation for Scott Fitzgerald's novel, The Great Gatsby. Today's Gatsby crowd is bigger, it's global, it's flush with record amounts of cash and benefiting from government stimulus. But many lost not only their jobs in the 1920s, but also their foothold on the economy. They slipped into a rootless nomadic life and formed the foundation for John Steinbeck's great novel, The Grapes of Wrath. Today, some will also slip off and find it hard to re-establish a foothold. But nowadays, we are less tolerant of human pain. We have better data and more money available to address this problem.

There will also be loads of bankruptcies and restructurings. People may have learned how to meet digitally during lockdown, but they never quite learned how to make decisions digitally. Lots of meetings is not the same as lots of decisions. Decisions to fold, restructure, pivot, sell and acquire will happen more quickly.

*“The digitisation of the world economy is now speeding up. People have become more comfortable with digitised reality.”*

The digitisation of the world economy is now speeding up. People have become more comfortable with digitised reality. Now the tools for doing so are accelerating the speed of the transition from reality into digital reality. GPT-3 is about to democratise the access to the digital space. You won't need to be a coder any more to build an app. You'll be able to do it in plain English. Coders will hate this, but the world will benefit from an infusion of creativity into the design and construction of digital spaces.

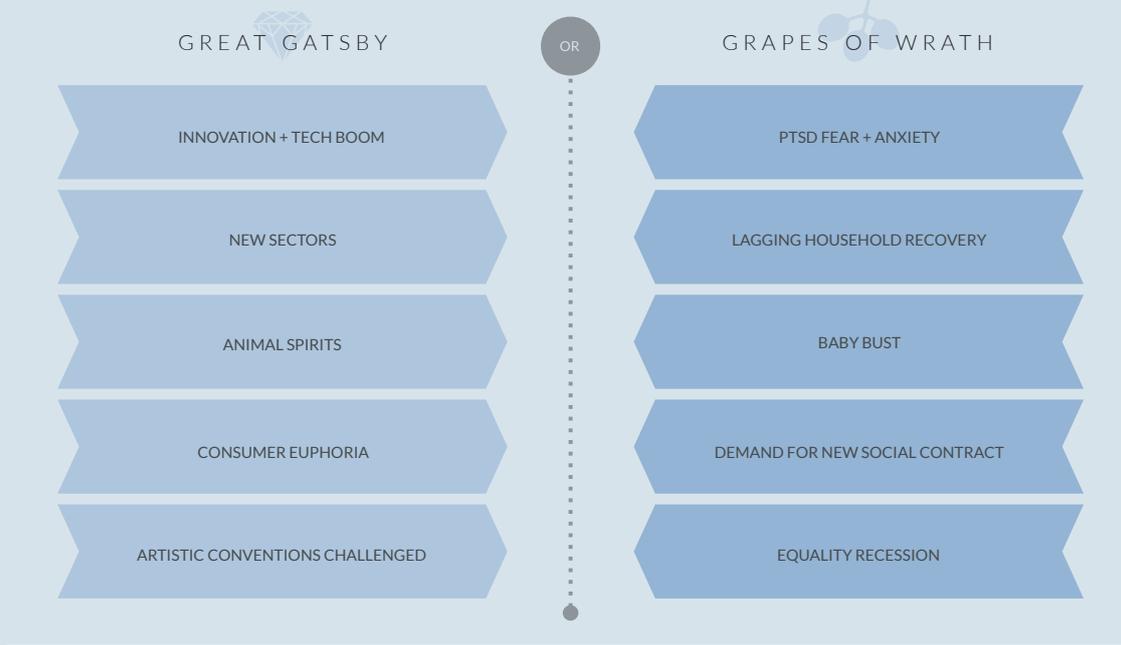
Ultimately the key to success is to remain open to possibility instead of committing to predictions. Preparedness beats prediction every time, especially in recent years where the “impossible” happened over and over and over.

**Q: With your economist hat on, how concerned are you about the risks of large fiscal stimulus measures and the potential for inflation? Most surveys suggest that inflation and rate hikes are the leading concern for investors.**

A: My biggest concern is that most people are not prepared for a sudden acceleration in demand. We've had a massive supply shock. That won't be fixed quickly. Demand, however, has not just been “pent up”. It's been locked up! So, it will come back quickly. We have more money in the system today than after the financial crisis. It's looking for a home. So, it's likely that there aren't going to be enough restaurants or industry supply sources or investment opportunities or anything else to satisfy the inevitable demand. The result is that prices will start rising. Taxes will be rising too. This means we need to think about inflation again, even if the number is very low. A move from 1% inflation to 3% demands a dramatic change in the asset allocation of a pension fund. Retail and institutional investors alike will seek to hold more equity, even at the current seemingly elevated valuations. Why? Only equities and hard assets can outrun inflation. Remember too that the world economy currently has a low base of economic activity. Any improvement will cause a marked improvement in growth numbers. Any improvement is likely to have an outsized impact on psychology. When the economic numbers start jumping upwards, the headline effect will make people more confident. The debt overhang will remain for years to come. But the immediate improvement will have an outsized effect given the generally dismal expectations.

# COVID-19 Resilience and Recovery Outlook *(continued)*

## THE SHAPE OF THE POST-PANDEMIC FUTURE



Meanwhile, central bankers will be incredibly slow to raise interest rates. They will wait till the markets demand a rate hike and then grudgingly comply. Remember rate hikes should imply that the recovery is real and sustainable. The equity markets should rally on the early hikes. If a rate hike causes a slowdown, it was a mistake. Policymakers are frightened of making such mistakes. This is why The British Chancellor recently announced higher taxes at some future date. He's testing the reaction so he can gauge the speed. Policymakers will want to normalise policy far more slowly than markets will want the normalisation to happen. So, as usual, policymakers are protecting the upside by offering a put on the downside.

**Q:** *Continuing on the theme of thinking as an economist and investor, what do you make of the insights the VAX Populi framework has generated in terms of the implications for policy and political stability? To use a phrase from one of your books, what "signals" should we be looking for in terms of resilience vs. risk relapse, whether in industries or countries?*

**A:** Data is, by definition, backward-looking. It cannot be reliably extrapolated into the future at the best of times let alone during the worst. It certainly cannot be now because COVID and technological innovation have so radically transformed the landscape. Signals are hints about the future, often anecdotes, that will eventually become data points. Some are dismissive of "anecdota" but it may be all we have to go on. What will be harder still is accepting the idea that data analysis alone can provide the answers we need. Analytics works well when the trends are firmly established and have longevity. Disruption on a massive scale renders data and traditional quantitative analysis less useful and demands that we begin to rely more on imagination. This is hard for many investors who are comfortable using only one side of the brain as it were. But imaginal skills are critical when everything is in flux. Who imagined that Zoom could be worth more than Exxon Mobil? Who can imagine how many new businesses and transactions Zoom is now facilitating? As Mark Twain said, "The eyes cannot see clearly when the imagination is out of focus."

## COVID-19 Resilience and Recovery Outlook *(continued)*

Politics is in flux. The balance of power between states and citizens is profoundly changing. Surveillance capitalism empowers corporations and the state, but the simple mobile phone and the internet vastly empower the individual. Digitisation is rapidly shifting the location of power. On one level, the events around gamers supporting Robinhood at the expense of hedge funds could be described as the digitisation of a flash mob. Everywhere the fabric of society is coming under pressure due to the debt and the attendant breaking of promises debt inevitably brings. But the unravelling of the social contract, while painful and disruptive, also brings new opportunities.

Perhaps the lesson of the last few decades is that investors have managed to navigate through incredibly turbulent politics. Perhaps an even greater lesson is that the markets and politics alike survive no matter how great the crises are. The political question of our time is not whether we can survive through another crisis. It is whether we can build anew in the aftermath of so many crises. This building a new process will inevitably include sloughing off of politics in order to create political infrastructure that works better. We'll see enormous innovation in law, politics and policy in the coming decade globally. But I expect significant innovation in the UK, which may emerge as the preferred location for deals globally due to the faith and trust in British Rule of Law. Britain will also be re-shoring decision-making from Brussels, which creates a once in a century opportunity to leapfrog into legal frameworks that can take technological innovations into account. Britain could end up with, perhaps inadvertently, the most modernised legal framework for business globally. If the American system continues to present the risk of jury trials and heavy regulation, and Asia continues to erode the rule of law and the EU continues to adopt an anti-technology/anti-innovation stance, then the UK may become the "go-to" location for deal making. If the UK follows America's lead and brings AI and machine learning into the legal framework, it will be far ahead of all other international locations.

*"The US, China, the EU, and most nations are now heavily investing in supercomputers and Quantum computing."*

**Q: What are you most optimistic and most pessimistic about in the 1-2 years ahead?**

A: I am very optimistic about the equation that is unfolding. It involves a record sum of capital in the system as a result of government largesse + a record wave of entrepreneurial energy which arises from the destruction of many companies and job losses + a vast increase in the speed of digitisation. All this equals a lot of money + a lot of opportunity + the enhanced ability for entrepreneurs to execute on their ideas. Creative destruction is always followed by creative construction.

Technology is both overhyped and underutilised which means that I am most pessimistic about the speed at which technology will actually be adopted. There is an ever-higher risk that people will be surprised by technology and underestimate how it facilitates new competitors. This is a function of lack of imagination.

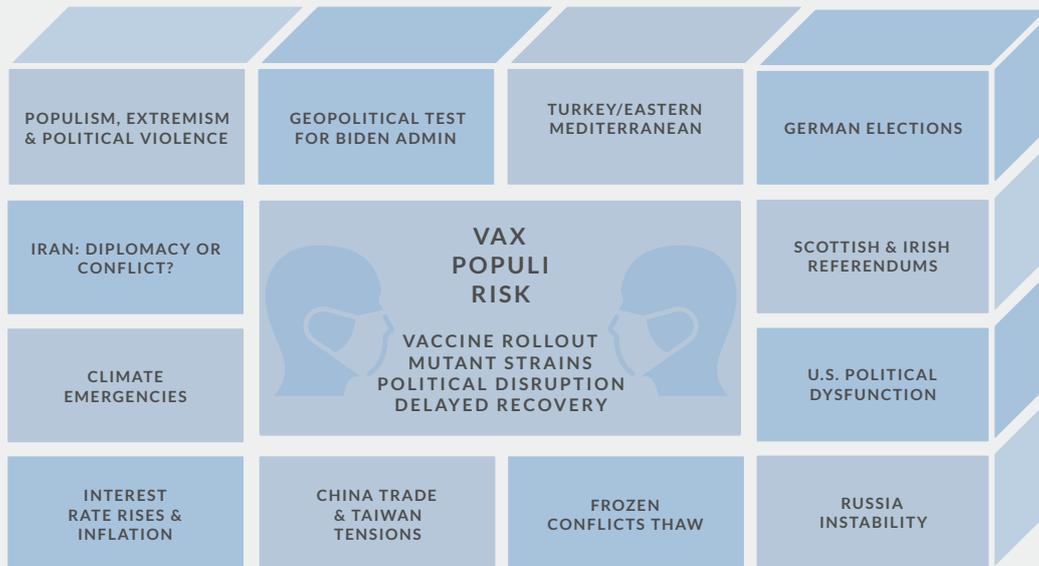
There will be geopolitical battles yet to come. President Trump may be gone but Trumpism still has an outsized support base. President Biden may seem a more palatable President to many but the risk of continued confrontations between the US and China, and between the US and the EU on policy, remain in place. But geopolitics can also spur the world economy. The new space race is for computational power. The US, China, the EU, and most nations are now heavily investing in supercomputers and Quantum computing. The Arctic and the seabeds are now valuable because computers love the cold. The spinoffs from this computational race will be even more valuable than the spinoffs from the NASA moonshot programs of the 1960s and 1970s. The race for domination in space and of space will facilitate enhanced ways of managing remote assets. The value of everything goes up when you can keep an eye on it from a satellite that is smaller than a shoebox.

Perhaps the greatest innovations in the world economy are set to come in money itself. The record debt combined with the record money printing and record data collection sets the stage for the creation of new financial instruments. Governments are already announcing sovereign digital money which also tracks behaviours all transactions like the DCEP from China. The US is testing the same idea via the banks like JP Morgan. Money has always represented power. But this power will be enhanced as money gets connected to blockchain and to IOT and 5G infrastructure. These new innovations will change the ways in which transactions are done.

# What to Watch: The VAX Populi Effect is Already in Evidence

## 2021 WALL OF WORRY

SOURCES OF DISRUPTION TO MARKETS AND THE GLOBAL ECONOMY ON THE RADAR



One year after the WHO pronounced COVID-19 a global pandemic, parts of the world are poised to soften restrictions, others are on the cusp of a new wave of infections, some have been slow to begin vaccines, and still other regions lack supplies and haven't begun at all. The intersection of these potential risks and erratic recovery patterns have significance for markets and the business environment.

For this reason, we place VAX Populi risk squarely at the centre of our 2021 "Wall of Worry", as the direction it takes will influence many of the other potentially market-moving global political risks we are tracking. For example, countries' propensity for populism, extremism and political violence is greater if they are situated in the Neutral-Negative (orange) or Negative (red) side of our heat map. Conversely, where VAX Populi Risk is comparatively low, as in The Netherlands, which held elections March 17th, the election returned a strong result for the incumbent government, re-elected for a remarkable fourth term.

*"The intersection of these potential risks and erratic recovery patterns have significance for markets and the business environment."*

# What to Watch: The VAX Populi Effect is Already in Evidence *(continued)*

## Social unrest and COVID-related disorder is already on the rise

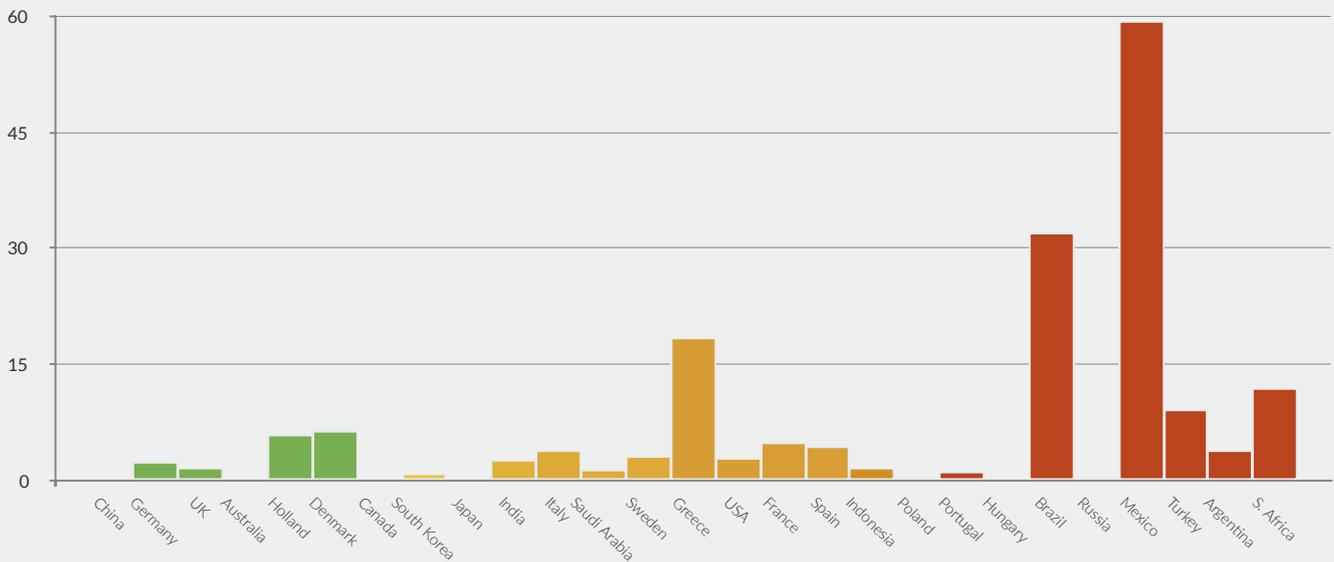
In the wake of the global financial crisis, social discontent increased in frequency and geographic scope as many around the globe took to the streets to protest the stagnating living standards and rising inequality.<sup>9</sup> The COVID-19 pandemic has taken an additional huge toll on the labour market and worsened distributional outcomes. While social unrest has declined given various lockdown measures in different countries, there have been a notable number of protests worldwide. Those have ranged from local to national, from peaceful to violent, and from COVID-

related to anti-government; some of the most notable examples include the demonstrations in the US, across the world, and most recently again in the UK, against police brutality and systemic racism; the brutally suppressed protests against the military coup in Burma and against electoral fraud in Belarus; and the civil campaigns against the worsening economic crisis in Lebanon. With the vaccine rollout and the resultant mobility improvements worldwide, social instability will continue to pose a significant risk in many developed and developing countries. As it could compound the governance and economy-management crises in those countries, it remains an important risk to watch.

### VAX POPULI EFFECT IS ALREADY EMERGING

COVID-19 DISORDER EVENTS PER MLN POPULATION

Note: Data includes only events directly related to the pandemic as motivating the event (e.g. the targeting of healthcare workers responding to the coronavirus; Violent mobs attacking individuals due to fears of their alleged links to the coronavirus; Demonstrations against governance decisions made in response to the coronavirus).



<sup>9</sup> International Country Risk Guide: <https://www.prsgroup.com/explore-our-products/international-country-risk-guide/> and Global Protest Tracker: <https://carnegieendowment.org/publications/interactive/protest-tracker#>

# What to Watch: The VAX Populi Effect is Already in Evidence *(continued)*

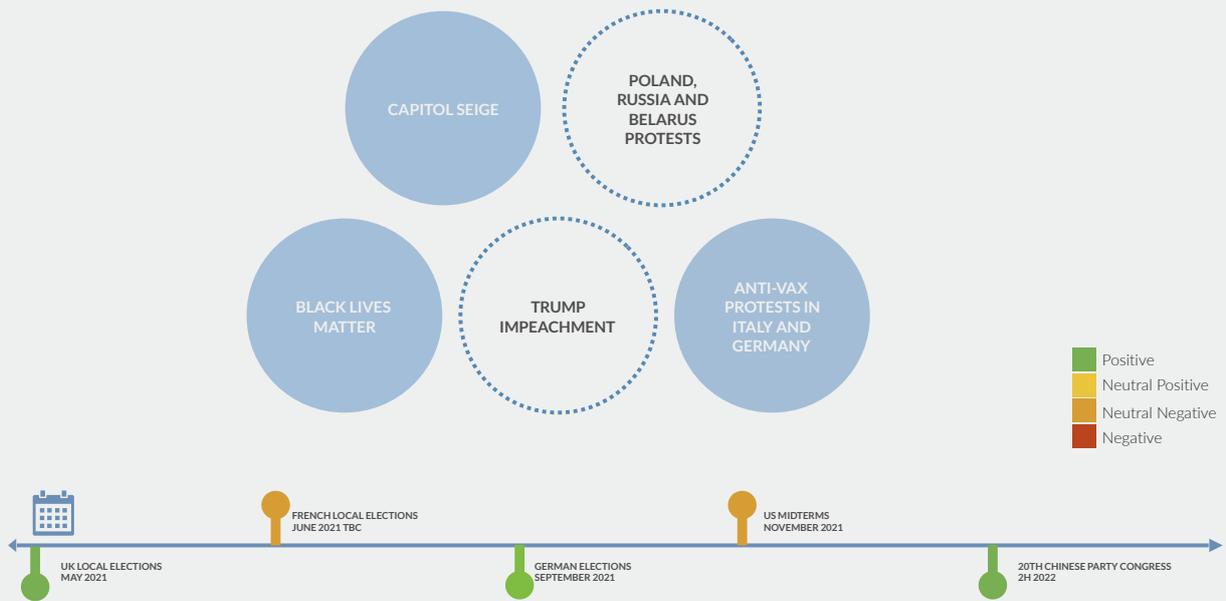
## Populism remains a threat in EU election cycle

The number of systemically significant elections in the next 12 months is relatively light, granting breathing room to pressured incumbent governments still grappling with the worst effects of the pandemic. Upcoming elections in 2021-2023 will be particularly tough for incumbent governments, with risks of a change in government and more non-mainstream policy orientation higher in the orange-red side of our heat map.

We highlight French elections in 2022 and the return of the wider EU election cycle as a cause for particular concern, given previously high levels of Vox Populi risk and the currently weaker outlook for resilience according to our heat map. Voters, however, may well reward leaders for presiding over an effective vaccine rollout, even where the handling of the initial stages of the crisis was poorly regarded.

### VAX POPULI RISKS ARE ALREADY IN EVIDENCE

PROTESTS, CIVIL UNREST, POLITICAL MACHINATIONS ARE INCREASING, POTENTIALLY INFLUENCING UPCOMING SCHEDULED ELECTIONS



*“Upcoming elections in 2021-2023 will be particularly tough for incumbent governments.”*

# What to Watch: The VAX Populi Effect is Already in Evidence *(continued)*

## Geopolitical Impact of Vax Populi

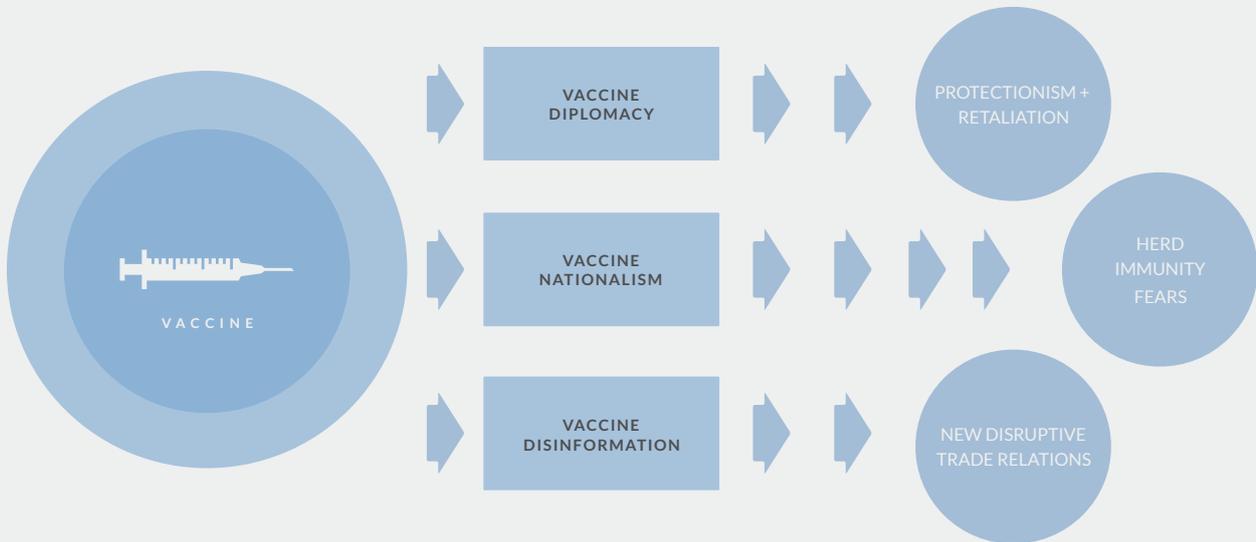
Another area of concern is the pandemic’s impact on geopolitical tensions. We have previously highlighted that during this period of fragility some actors, state or non-state, might be tempted to challenge the status quo at a time when many governments are overwhelmed by the pandemic. Having said that, we expect little appetite for an uptick in bi-lateral tensions between great powers the US and China, given how both nations are deeply consumed by their own domestic crisis-fighting efforts.

The dire government response to the crisis is some of the richest and most advanced countries in the world – the US, UK, and much of Europe – has consolidated the view that the West, to invoke the Cold War-era term, is in terminal decline. It should

be noted, however, that the “usual suspects” when it comes to global trade and security tensions – China, Russia and Iran – are also preoccupied with managing crises at home, and abroad and unlikely to test the resolve testing of the new US administration in the near-term in our view.

But this perception is also a double-edged sword; global public attitudes toward China also worsened markedly due to negative views on China’s handling of the crisis. The change in this trend does not bode well for an improvement in relations between Washington and Beijing; indeed, it suggests that the Biden Administration has significant scope to increase pressure on China, including over human rights abuses.

...BUT IT CAN ALSO BE WEAPONISED, OPENING A NEW GEOPOLITICAL FRONT, WITH POTENTIALLY DANGEROUS RESULTS.

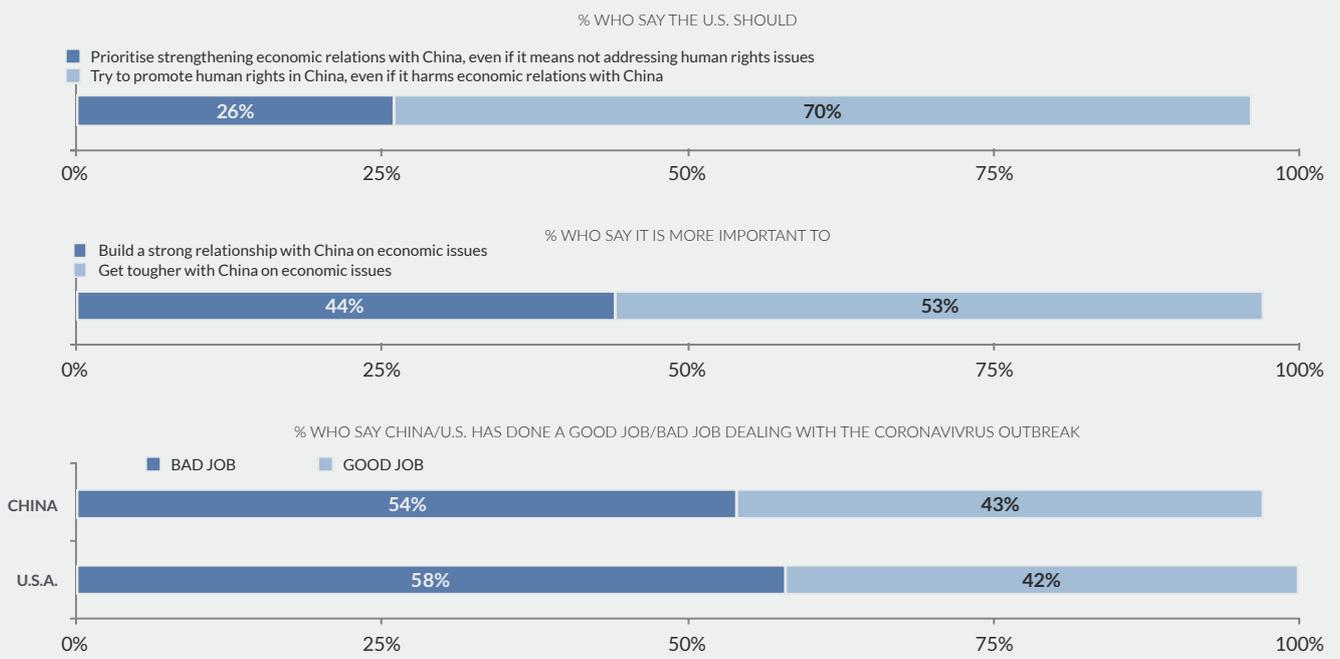


## What to Watch: The VAX Populi Effect is Already in Evidence *(continued)*

Finally, while conventional trade and security tensions may ebb and flow, vaccine diplomacy, vaccine nationalism and vaccine disinformation have opened a new weapon that countries can use to destabilise rivals and the current international order. Vaccine disinformation<sup>10</sup> is a particularly powerful, below-radar tool that has the potential to cause significant disruption to vaccine willingness, especially in countries such as the US and France,

where scepticism levels are high and information hygiene is comparatively low, leading to greater susceptibility for conspiracy theories. The US State department’s Global Engagement Center, which monitors disinformation operations, disclosed in March that Russian intelligence agencies had embarked upon an active campaign to question the safety of vaccines, especially Pfizer.<sup>11</sup>

### MAJORITY OF AMERICANS SUPPORT MORE ASSERTIVE STANCE ON CHINA



*“Vaccine disinformation is a particularly powerful, below-radar tool.”*

<sup>10</sup> <https://www.weforum.org/agenda/2021/02/disinformation-covid19-vaccine-attitudes/>

<sup>11</sup> <https://www.google.co.uk/amp/s/www.wsj.com/amp/articles/russian-disinformation-campaign-aims-to-undermine-confidence-in-pfizer-other-covid-19-vaccines-u-s-officials-say-11615129200>

## Tell Me How This Ends

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## Tell Me How This Ends

Most pandemics eventually end – not strictly because a vaccine has emerged, but when societies find a way to accept the level of risk and balance this with the protections required for society to function. At this stage there are some lessons learned, based on the policy responses and errors to date.

First, the notion from early in the crisis of attempting to “balance” continued economic activity with pandemic safety measures resulted in a false dichotomy and produced the highest death tolls where such a policy operated (US, UK, Sweden). Consumers

don’t spend if they don’t feel safe, and many people aren’t willing to come to work either. Second, countries with previous recent experience of a pandemic were able to exercise a “muscle memory” of how to behave, acting as a brake on contagion. Third, as ever, a crisis accelerates existing trends. These include further advancements in the automation of the labour force and digitisation as well as de-globalisation and challenges to privacy, thanks to the pretext the pandemic provided for governments to engage in tracking and tracing their citizens in the name of limiting the spread of the virus.

### KEY DRIVER: PUBLIC TRUST IN INSTITUTIONS

TRUST IN GOVERNMENT HAS FALLEN DURING THE PANDEMIC AND STRENGTHENED FOR BUSINESS

| GOVERNMENT   | +/- JAN 2020 - MAY 2020 | +/- MAY 2020 - JAN 2021 | +/- |
|--------------|-------------------------|-------------------------|-----|
| S. Korea     | +16                     | -17                     | -33 |
| UK           | +24                     | -15                     | -39 |
| China        | +5                      | -13                     | -18 |
| Mexico       | +12                     | -12                     | -24 |
| Canada       | +20                     | -11                     | -31 |
| India        | +6                      | -8                      | -14 |
| US           | +9                      | -6                      | -15 |
| Germany      | +19                     | -5                      | -24 |
| Japan        | -5                      | -1                      | 4   |
| Saudi Arabia | +5                      | -1                      | -6  |
| France       | +13                     | +2                      | -11 |

- ▶ **BUSINESS OVERTOOK GOVERNMENT AS THE MOST TRUSTED INSTITUTION MID-2020 GLOBALLY**
- ▶ STRONG CORRELATION BETWEEN VIRUS FATALITIES AND FALL IN GOVERNMENT TRUST; CHINA AND US SAW RECORD DECLINE, ALSO UK, RUSSIA
- ▶ FEAR OF JOB LOSS, CLIMATE CHANGE, CATCHING COVID AND DECLINING CIVIL LIBERTIES ARE TOP PUBLIC CONCERNS. THE “RAGING INFODEMIC” ADDS FUEL TO THE FIRE
- ▶ EFFICACY OF VACCINE ROLLOUT WILL BE KEY TO RESTORING PUBLIC TRUST IN GOVERNMENT
- ▶ TRUST CAPITAL CAN BE REBUILT, AND WILL BE NECESSARY FOR RECOVERY AND FUTURE RESILIENCE.

SOURCE: 2021 EDELMAN TRUST BAROMETER // JANUARY 2021

*“At this stage there are some lessons learned, based on the policy responses and errors to date.”*

## Tell Me How This Ends *(continued)*

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### *Restoring public trust in government and institutions*

One of the more striking (and worrying) turnarounds during the pandemic has been the sharp drop in global public trust in government. Trust capital can be rebuilt, however; an effective vaccine rollout and (continued) support for those hurt most by the crisis are likely necessary steps in that direction. What the Edelman results for 2021 also highlight is how, for the first time in many years, business has become the most trusted institution globally. This change in trend can be attributed to the private sector's comparatively rapid response to the crisis, particularly with regard to employee health and well-being as well as business leaders' being seen to be at the forefront of efforts to respond to the threat of climate change, inequality and discord exposed by recent protests.

### *Policies, socio-economic inequality, and growth*

It's well-established that reducing inequality boosts economic growth, and that education is the main causal mechanism behind this relationship.<sup>13</sup> The pandemic has disproportionately affected the poor, women, and minorities, thus widening the disparities within many societies.<sup>14</sup> Moreover, it has further constrained education opportunities for children from these same socio-economic minorities.

The pandemic could set off a vicious cycle of economic contraction, social conflict and deprivation, inter-generational tensions and inequality that increase social unrest, factors associated with lower growth.<sup>15</sup> Since the impact of inequality on social unrest depends on the extent of redistributive transfers, policymakers could act to limit the scarring effects upon the most

vulnerable. Accordingly, an important risk to watch is the design, targeting, and implementation of government stimulus packages – do they redistribute to not only soften the blow of the pandemic but also to address the inequalities that could reduce social discontent and harm economic growth in the future?

Beyond economic and political measures, the COVID-19 pandemic has also led to a sharp increase in the number of people who describe themselves as “struggling” or “suffering” in well-being terms. Such figures are a cause for concern, as sharp declines in public health and well-being have been reliably linked to destabilising political outcomes, and undoubtedly contributed to the spike in support for non-mainstream political parties and leaders documented in the Vox Populi research, which followed the period of the Global Financial Crisis. One future area of exploration will be understanding the tradeoffs between lockdown policies to limit COVID deaths and future mental and physical health outcomes.

Lastly, the global drop in birth rates<sup>16</sup> is another data point to consider as we attempt to assess public confidence in the post-pandemic future and the foundation for growth. A COVID-led baby bust would further pressure public finances in governments that have seen huge increases in debt levels, reducing the scope of the demographic pyramid and the strains on the working-age population.

*“The pandemic could set off a vicious cycle of economic contraction, social conflict and deprivation, inter-generational tensions and inequality that increase social unrest, factors associated with lower growth.”*

<sup>12</sup> Edelman trust barometer.

<sup>13</sup> See for example: <https://www.oecd.org/newsroom/inequality-hurts-economic-growth.htm>

<sup>14</sup> <https://www.nytimes.com/2020/03/15/world/europe/coronavirus-inequality.html> and <https://www.unwomen.org/en/news/stories/2020/9/feature-covid-19-economic-impacts-on-women>

<sup>15</sup> <https://blogs.imf.org/2020/12/11/when-inequality-is-high-pandemics-can-fuel-social-unrest/>

<sup>16</sup> <https://www.bloomberg.com/news/articles/2021-03-14/global-baby-drought-of-covid-19-crisis-risks-population-crunch>

## Tell Me How This Ends *(continued)*

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### Conclusions and Implications

- 1. A new, more comprehensive macro framework for the pandemic era is needed.** The pandemic exposed the inadequacy of the available tools for assessing many of the key variables related to both responding to the pandemic threat itself and to prospects for recovery and resilience. Thinking in conventional terms of base cases and tail risks, signals vs. noise will be insufficient for capturing the range of possible diverging outcomes.
- 2. The factors that helped countries respond well in the first phase of the pandemic diverge from those related to recovery and resilience prospects.** This disconnect produces some counter-intuitive but important findings and reinforces the need to monitor a more expansive set of factors.
- 3. The VAX Populi Risk outlook for countries is dynamic.** It can improve or deteriorate, altering the trajectory for risk and resilience. If poorly managed, VAX Populi risk could set off a vicious cycle of economic contraction, social unrest and deprivation, inter-generational tensions and exacerbated inequality. Such tensions could extend for 1-2 electoral cycles and become a defining feature of the post-pandemic political and social landscape.
- 4. But political risks are most acute for incumbent governments facing elections in the next 1-2 years.** This is due to our expectation that an uneven vaccine rollout and continued emergence of variants will result in an erratic economic recovery with episodic returns to restrictions. We also expect to see higher instances of “protest relapse” where there was protest activity in the pre-pandemic years.
- 5. Levels of vaccine hesitancy are rising in many countries.** There is a significant risk that this trend merges with latent populist tendencies, poor information hygiene and the weaponisation of vaccine disinformation, culminating in new and more virulent risks to political stability and economic growth.
- 6. Contrary to the conventional wisdom, pandemic recovery prospects are not correlated to regime type, e.g. democracy vs. authoritarian regime.** Our findings highlight that the factors most consistently linked with crisis response and pandemic control were best proxied with government effectiveness, human development, and social cohesion, which do not neatly correspond to regime type.
- 7. Vaccine nationalism, misinformation and trade-related tensions will increase, opening a new weapon in the geopolitical arsenal.** The offer or restriction of supplies and cooperation presents a powerful new tool for countries to project geopolitical power without triggering a military response. This could have profound implications for the international system, global balance of power, likelihood of military conflict and diplomatic efforts.

## Tell Me How This Ends *(continued)*

IS COVID-19 THE LEAST OF OUR WORRIES IN A HIGHLY-COMPLEX GLOBAL ENVIRONMENT?



**8. The private sector has emerged from the pandemic with higher levels of public trust than government.** This is both an opportunity and a huge responsibility for the C-Suite. Maintaining these levels of trust will require continued evidence of efforts to promote employee and public health and well-being as well as attention to the climate change and wider ESG/inequality agenda (racial, ethnic, gender, sexual identity).

**9. The UK emerges as a case of a country with poor performance on initial pandemic management but low level of VAX Populi Risk.** This could be a fleeting advantage in the event of a significant setback, but the UK's strengths in the areas of high public vaccine acceptance, social cohesion and government effectiveness could provide a welcome boost to Britain's recovery trajectory in the aftermath of Brexit.

**10. US VAX Populi risk outlook is higher than many market-watchers anticipate.** The low US propensity for resilience is rooted in poor information hygiene, low levels of trust in the government and social cohesion, and lower government effectiveness than peers. These factors act as a drag on US recovery prospects, especially for distributed growth, and could keep levels of polarisation and inequality high, translating into further social unrest, future election disputes, and a more limited government reaction function.

Avonhurst Global Political  
Strategy Team

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## Avonhurst Global Political Strategy Team

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Jonathan Bloom is the Chairman and CEO of Avonhurst. Long recognised as a leading capital markets and funds lawyer in the UK, Jonathan established Avonhurst to provide funds with a range of peerless advisory services, focusing on law, legislative and political risk analysis and capital introduction.

Most recently a partner with global law firm Jones Day, Jonathan was one of the founding partners of Ropes & Gray in London, and a leading partner in the high yield team at White & Case.

Jonathan has represented private equity funds and their portfolio companies, alternative capital providers, corporate borrowers and issuers, underwriters, arrangers, and secured lenders. In addition to his work in high yield debt, he has extensive experience in structuring and negotiating acquisition, bridge and mezzanine financings, and debt restructurings.



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Tina Fordham is a leading thinker and practitioner in the field of global political analysis for financial markets, with over two decades' experience advising institutional investors, corporate boards and international organisations.

Since 2020, Tina has been a partner and Head of Global Political Strategy at Avonhurst, a London-based boutique advisory firm dedicated to serving the needs of sophisticated capital. She also serves on the international advisory board at Cambridge University's new Centre for Geopolitics.

Previously she was at Citi for 17 years, where she was the first Chief Global Political Analyst on Wall Street and published her groundbreaking research on "Vox Populi" risk, an alternative framework for assessing the impact of political and socio-economic risks on the investment environment. She also led Citi's gender economics work stream.

In 2016, Tina was appointed to the first United Nations' High-Level Panel on Womens' Economic Empowerment, twice addressing the UN General Assembly. She has served as Senior Adviser in the UK Prime Minister's Strategy Unit, and in 1999 she founded Eurasia Group's financial markets research business, leading the creation of the firm's emerging markets political stability index and European expansion.



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Pippa Malmgren is a Senior Advisor to Avonhurst. She served President George W. Bush in the White House as Special Assistant to the President and on The National Economic Council, serving on the President's working group on corporate governance and financial markets. Before joining the White House, she ran the Bankers Trust Asset Management business in Asia as the Global Chief Currency Strategist and served as the Deputy Head of Global Strategy at UBS.

Pippa is the best-selling author of *The Infinite Leader*, *Geopolitics for Investors and Signals: How Everyday Signs Help Us Navigate the World's Turbulent Economy*. She serves as a judge on The Queen's Enterprise Business Awards and was a member of the Board of Directors for The Department for International Trade in the UK from 2017-2019.

Pippa has a BA from Mount Vernon College and an M.Sc. and PhD from LSE, and completed the Harvard Program on National Security. She lectures at Sandhurst and the Duke Fuqua Global Executive MBA Program and has guest lectured at the U Texas Austin and INSEAD.

## Avonhurst Global Political Strategy Team *(continued)*

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Gavin Barwell is a Senior Advisor to Avonhurst. He served as Chief of Staff to the Prime Minister from June 2017 to July 2019 during one of the most turbulent periods in British political history. As the Prime Minister's senior political adviser, he was intimately involved in both the conduct of the Brexit negotiations and the efforts to secure Parliamentary support for the deal, giving him outstanding contacts in all British political parties, the EU institutions and a number of European governments.

Prior to his appointment, he was the Member of Parliament for Croydon Central from May 2010 until June 2017. In October 2013, David Cameron appointed him as a Government Whip and subsequently promoted him within the Whips Office. Between July 2015 and June 2016, he was responsible for day-to-day management of business in the House of Commons, giving him an unparalleled understanding of how Parliament and the legislative process works.

In July 2016, Theresa May appointed him as Minister of State for Housing and Planning and Minister for London at the Department for Communities and Local Government.



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General, the Lord (Nick) Houghton is a Senior Advisor to Avonhurst. He is a former United Kingdom Chief of Defence Staff and is now the Constable of The Tower of London and a Cross-Bench Peer in the House of Lords. In a 43 year military career, he served seven times in Northern Ireland earning operational awards as both a Commanding Officer and a Brigade Commander in Belfast.

He was the Deputy Commander of the Multi-National Force Iraq in 2005-06, Chief of Joint Operations from 2006-09, in charge of all overseas operations of UK Forces, and both Vice Chief then Chief of Defence Staff over the period 2009-16. He was the Colonel Commandant of the Intelligence Corps and the founding Colonel of the Yorkshire Regiment.



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Tor McLaren is a Senior Advisor at Avonhurst. He has a wide range of experience across media and communications, finance, intelligence and strategy and is a founder of Tiller, a trusted and connected network with recourse to hard-to-access information and authenticated insights.

He is a former partner of Nash Capital Group, which provides funding, M&A and corporate finance advisory services, alongside direct investment access to rapidly growing private companies. There, as an appointed member of the Trade Policy Research Centre's Strategic Advisory Committee, he also advised a specialist group of political strategists on trade policy and activity. Prior to that, he had spent his career launching, acquiring and selling media businesses, including the launch of Australia's Foxtel and Galaxy platforms, before returning to the UK to work for NBC Universal's UK and EMEA television channels business as Director of Channels.

Having served on the boards of start-ups and multinationals, Tor has a broad knowledge of corporate governance issues, with skills that encompass corporate strategic development, marketing and communications, public policy presentation and change leadership. He is a Fellow of The Royal Society of Arts and an active supporter of research into cancer and genetic disease and has served on board of the National Institute of Health Research's Pancreas Biomedical Research Unit.

## Avonhurst Global Political Strategy Team *(continued)*

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As a Senior Advisor to Avonhurst, Sean West will play an active role in guiding our bespoke transaction analysis. Sean's relationships and experience across this sector make him uniquely capable of assisting us in accessing third party resources to support our solution driven approach to looking after our clients.

A seasoned executive, board member, trend-spotter, advisor, educator and disruptor, he is co-founder of ProfeTech, a technology company which builds products for the knowledge economy, providing embedded advisory to a select group of start-ups, enterprises and investors.

Prior to that, Sean spent more than a decade building multiple businesses at Eurasia Group, the most prominent global affairs research, advisory and consulting firm. He was the founding CEO of the firm's innovation business and drove global expansion as Deputy CEO of the firm. He also founded and fronted Eurasia Group's market-leading proposition in the US political risk space.



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Dr. Petrova's research interests lie at the intersection of domestic politics and international relations, including political risk and political economy, the relationship between political stability, international norms, social unrest and regime type. Previously she headed Eurasia Group's incubator for innovative political-risk analytics and led the development and launch of qualitative and quantitative commercial products leveraging advances in research methods, big data, and machine learning.

She is a Political Science lecturer at Columbia University, where she teaches graduate research methods, and is a frequent commentator on Europe for the New York Times, the Financial Times, and the Economist, among others. Dr. Petrova received her Ph.D. in Political Science from Cornell University and subsequently held post-doctoral positions at Harvard University and Columbia University.



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