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Responsible Investing | Volatility

Market uncertainty met by increasingly clear corporate purpose

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Washington -- The US economy today faces a level of uncertainty not experienced since the financial crisis over a decade ago. We stand at the precipice of a dual public health crisis and an economic recession.

As a nation, our response to Covid-19 has been uncoordinated and grassroots, but there is a bright spot - many of America's schools, churches and business leaders have taken initiative to support social separation and to continue to provide vital goods and services to the economy. Despite these actions, the markets continue to roil, due to a lack of information about the extent of the Covid-19 infection and the absence of a strategic, cohesive response by our government.

Uncertainty and related market volatility will continue at elevated levels until these two conditions are met. In the absence of information, markets have begun to assume the worst, and we simply do not know if this is a massive overreaction or a reasonable response to rapidly changing conditions.

The government alone can change this trajectory by immediately backstopping consumer credit with adequate unemployment benefits, family medical leave, access to affordable health care and by committing to extend credit to the millions of small businesses that play such a vital role in economic recovery at local levels. It is very unclear whether our federal government will be successful in navigating this crisis before significant adverse health impact, including lost lives, is felt across the US. Further, the ability to rapidly bring the policy and fiscal tools needed to protect the financial position of individuals and companies is questionable.

Ultimately, we will understand Covid-19 and the government will act to either protect or repair the economy. It is simply a question of how much pain the country must bear in the meantime. At that time, we believe markets will stabilize.

How Calvert evaluates Covid-19 risks

During this period of uncertainty, Calvert Research and Management is assessing the exposure to the social risks that businesses have to the most material issues related to Covid-19 and their management of those risks. How well companies deal with these issues in real time will likely have a long-term impact on their reputations as employers, to their brands and ultimately, to their future profitability.

Examples of these risks include how companies manage the health and safety of their employees and customers, and how they manage supply chain disruptions to continue to provide essential services for the welfare of the nation. We have seen many examples of companies taking leadership to set a positive example while also differentiating themselves from competitors.

For instance, social distancing can help flatten the curve of the Covid-19 spread. Without comprehensive direction at the national level, companies can extend remote work to their employees or use their brand power to create consumer awareness of this important -- even essential -- practice. For example, certain tech platforms moved

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quickly to extend mandatory remote work in the first stages of the Covid-19 outbreak to protect the health and safety of workers and to maintain long-term productivity of their workforces. Also of note, many restaurants and coffee shops announced they were limiting service to take-out and delivery in order to help promote social distancing.

Additionally, we have seen some consumer staples retail companies taking action to ensure fair and consistent access for in-demand products such as groceries and cleaning supplies. In response to consumer pantry stocking, these consumer staples retailers have announced the implementation of reduced store operating hours to allow for restocking and store cleaning and sanitization. Retailers are also increasingly aware of the potential for price gouging by third parties and have taken steps to enforce policies preventing it. These practices may increase consumer loyalty well after this period of uncertainty.

Calvert has previously identified certain environmental, social and governance (ESG) risks as being too high for our investment strategies to tolerate. On that basis, we believe that our portfolios have less exposure to what we consider to be the weakest companies in the management of material factors across human capital management, product safety, workplace safety and certain other ESG exposure areas than the market overall. Although we expect our companies to perform well on the type of social impact measures important during the Covid-19 pandemic, our research team is working to track actual performance across many companies. How companies perform at this time can certainly impact our long-term view of a company going forward.

Bottom line: Based on our experience during prior times of great uncertainty, we know that markets are capable of long-term recovery. We also believe that corporations reveal strengths and weaknesses during periods of stress and crisis, and that investors learn and adjust during these periods. We are working hard to monitor and understand how companies are performing on the social impact factors that are material to the outcome of this crisis and that will inform the future of their businesses.