Empowering Women: How COVID-19 has Affected the Gender Gap

Executive Summary

This paper examines the progress of womenomics in the face of the COVID-19 pandemic. Specifically, we review the implications of the US gender gap through the lens of labor participation and pay, and evaluate the economic benefits for all of us that closing the gap may bring. Our findings suggest that:

- The female labor force has been disproportionately affected by the pandemic due to women's high representation in the service industry and challenging childcare options.
- A 20% wage gap still exists, with the majority unexplained by traditional factors. Over a 45-year career, the pay gap could lead to a 15% shortfall in retirement savings for women.
- Closing the employment-population ratio and pay gaps can directly add $1.5 trillion (7.3%) to US GDP. Indirectly, global equity markets may also see benefits in the magnitude of 3-9% on the back of stronger US growth.
- Corporations and governments that employ a collection of programs targeting pay, workplace satisfaction, and workforce access can help foster an inclusive environment for women at various career stages.

Women's History Month is an opportune time to reflect on the global progress toward achieving gender parity. Despite a rocky start to this new decade from the COVID-19 pandemic, there is still a lot to celebrate. For the first time ever, there is at least one woman on every S&P 500 company's Board of Directors[1]. Female CEOs in the US are represented across industries – automotive, healthcare, info tech, energy, and financials. And globally, countries with at least 50% female labor participation rates account for 62% of world GDP, underscoring ways in which women continue to have a significant influence on the economy.

While tremendous strides have been made by women in these realms, there is still work to be done. Measures of global gender parity across four broad categories – economic, education, politics, and health – suggest that the median country scored 70 out of 100 on the Global Gender Gap Index[2]. The US scored only two points higher than the median at 72. Even countries with the smallest gender gaps still find themselves grappling with a considerable pay gap. Gender imbalances can extend beyond pay as well. Women often take greater responsibility for childcare and home care, are less likely to be in leadership positions, and are over-represented in service occupations. In the US alone, women spend 60% more time relative to men on unpaid work on a weekly basis, equating to an additional 36 days a year[3]. In the workplace, women represent only 27% of companies' Board of Directors seats, often being the "only one" at the top echelon of leadership. Some of these very issues have been exacerbated during the COVID-19 pandemic.

Still, we remain optimistic for the future. Though we recognize that many factors may contribute to the existing gender gap, we focus our analysis on examining the measurable wealth implications of labor and pay gaps in detail, as well as the potential $1.5 trillion boost to the annual US GDP if we can close them.

[1] 2020 Spencer Stuart Board Index. Based on proxy statements filed by S&P 500 companies between May 2019 and May 2020.

[2] World Economic Forum, 2020 Global Gender Gap Report, December 2020.

[3] US Bureau of Labor Statistics and GSAM. As of 2019, latest data available.

Womenomics in the Current Environment

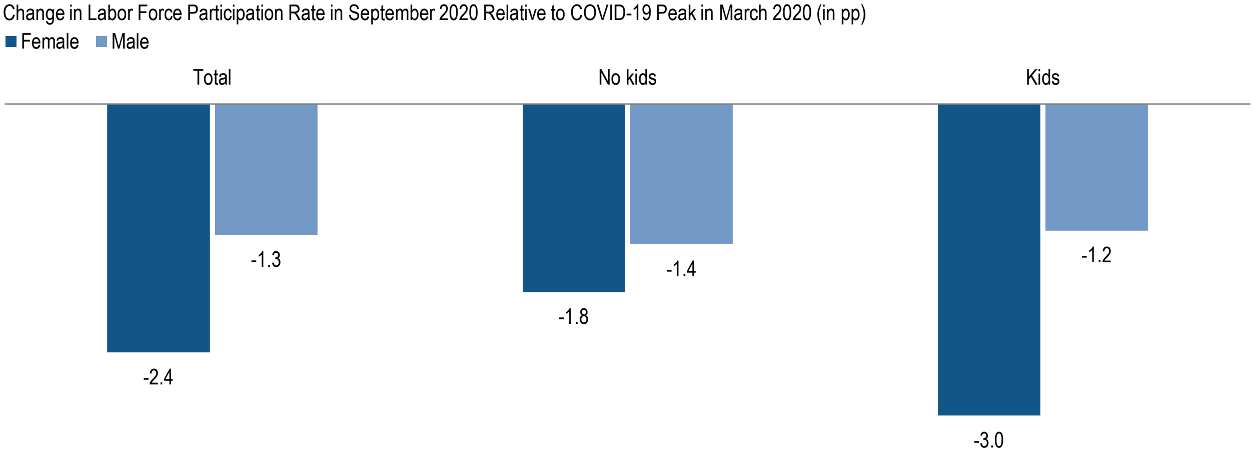
COVID-19 has amplified the gender labor gap

COVID-19 may have amplified economic inequalities across many dimensions. Globally, women make up 39% of the workforce, but they accounted for 54% of total job losses at the pandemic's peak[4]. In the US specifically, women lost 5.4 million net jobs in 2020[5]. Minority women were affected even more; at the virus peak, Black and Latinx women saw unemployment rates hit all-time highs of 16.2% and 20.2%, respectively[6]. Part of this asymmetrical impact can be explained by an occupational concentration in service industries that were most sensitive to the virus, including restaurants, hospitality, and personal care. For Latinx women in particular, their geographic concentration in the Sun Belt and Northeast states with rampant case growth reflects yet another layer of imbalance.

As employment rates have yet to fully recover, US women have also been challenged by a lack of childcare support through traditional systems. In fact, two out of three working parents have changed their childcare arrangement due to COVID-19, and the majority have yet to find a permanent solution[7]. Meanwhile, existing childcare facilities are still financially overwhelmed by the lockdown in March, making it difficult for them to operate while adhering to reduced capacity guidelines. The combination of limited in-classroom learning and stretched daycare capacity may ultimately keep working moms out of the labor force for longer. As Exhibit 1 illustrates, women with children have already dropped out of the labor force at a disproportionate rate. From March to September 2020, US women with children left the workforce at a faster pace (+1.8pp) relative to US men with children, potentially signifying the greater childcare responsibilities that are taken by women.

EXHIBIT 1: WOMEN HAVE DISPROPORTIONATELY LEFT THE WORKFORCE

Change in Labor Force Participation Rate in September 2020 Relative to COVID-19 Peak in March 2020 (in pp)



Source: Federal Reserve Bank of Dallas, Pandemic Disproportionately Affects Women, Minority Labor Force Participation, November 2020.

Though the occupational impact and childcare responsibilities noted above may have regressive implications on gender parity, some households have experienced reversed gender norms during the pandemic. Women employees are overwhelmingly represented in front-line essential roles, which do not tend to offer flexible work arrangements. As a result, their partners may have assumed a greater share of responsibilities at home. This phenomenon is particularly notable for mothers employed in health care fields such as nursing (where 87% of all employed registered nurses are women) and home health care (91% female) where working from home is virtually impossible.

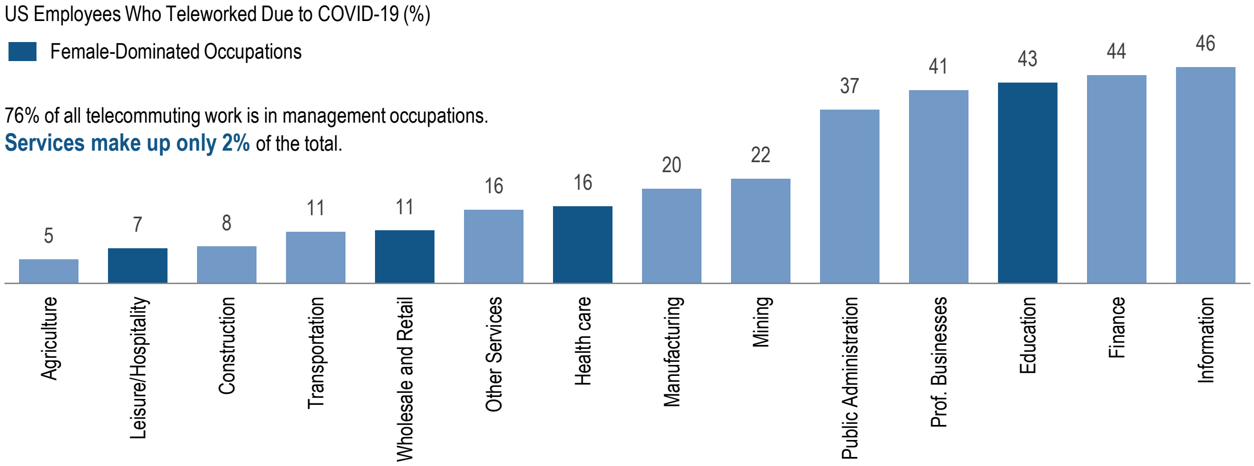
[4] McKinsey & Co., COVID-19 and gender equality: Countering the regressive effects, July 15, 2020.

[5] US Bureau of Labor Statistics, December 2020.

[6] Federal Reserve Bank of St. Louis. As of January 2021, latest data available.

[7] US Chamber of Commerce Foundation, The Importance of Childcare to US Families and Businesses, December 2020.

EXHIBIT 2: FLEXIBILITY OF REMOTE WORKING VARIES ACROSS OCCUPATIONS



Source: US Bureau of Labor Statistics. As of January 31, 2021.

Workers in certain male-dominated occupations may also experience this limitation. For instance, construction and extraction (97% male) and agricultural professions (84% male) may challenge childcare arrangements in this temporary environment. Meanwhile, companies exploring permanent shifts to remote working could shift the balance of home responsibilities between mothers and fathers as well. In either case, the family-friendly support that workers receive from their employers may be critical to retaining female talent, especially when the bar to exiting the workforce is particularly low.

Gender gaps extend to pay and retirement as well

Beyond labor imbalances, pay disparities have continued to reflect another obstacle to gender parity. According to the latest earnings data collected by the US Census Bureau, US women earned 82 cents for every dollar received by men[8]. Though some of this pay gap can be explained by differences in industries, educational attainment, and years of experience, the remaining gap (estimated at 90% of the total) is unexplainable, perhaps driven by unconscious biases that may be possible to overcome. The pay gap widens further across racial lines, high-skill occupations, and when women exit the workforce during prime earning years.

Over multi-year periods, the repercussions to the pay gap can be huge. Lower lifetime income accumulation may create a savings problem for women, especially as they tend to outlive men. As Exhibit 3 shows, a woman with a 45-year career, assuming steady wage growth and retirement set in 2020, would have potentially amassed $6.3 million in savings by the age of 70. Still, this would have resulted in a 15% retirement shortfall (about $1.1 million) relative to the savings accumulated by her male counterpart. To close this gap, this same woman would have had to stay in the workforce for an additional eight years beyond age 70.

[8] US Census Bureau, 2019.

EXHIBIT 3: CLOSING THE LIFETIME SAVINGS GAP

Source: GSAM SAS Market Strategy. For illustrative purposes only. A program of investing regularly cannot guarantee a profit or protect against loss in declining markets. An investor's principal is not guaranteed or protected from a decline. The growth of your assets will be based on the actual rate of return provided by the investment you choose. The chart is graphical measurement of a portfolio's gross return that simulates the performance of an initial investment over the given time period. The example provided does not reflect the deduction of investment advisory fees and expenses which would reduce an investor's return. Please be advised that since this example is calculated gross of fees and expenses the compounding effect of an investment manager's fees are not taken into consideration and the deduction of such fees would have a significant impact on the returns the greater the time period and as such the value if calculated on a net basis, would be significantly lower than shown in this example. Expected returns are estimates of hypothetical average returns of economic asset classes derived from statistical models.There can be no assurance that these returns can be achieved. Actual returns are likely to vary. These examples are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially.

This scenario is based on historical data inputs, but the ultimate retirement gap could be wider or smaller depending on individual circumstances. This analysis assumes:

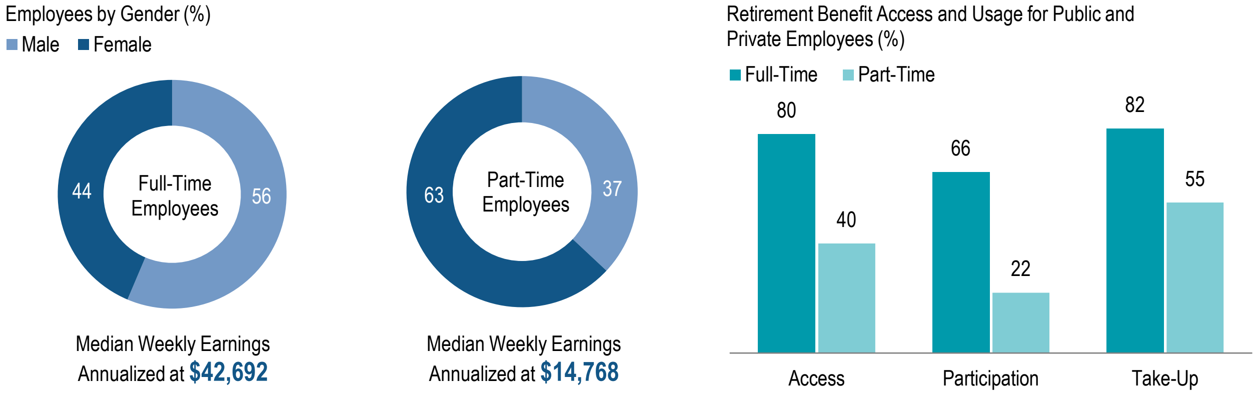
- A starting median male salary of $53k based on 2019 US earnings;
- a constant female pay gap of 18% applied to the annual male salary to derive the female-equivalent salary;
- median realized wage growth of 2.5% and 2.1% for women and men, respectively, informed by the US experience over the past 20 years (2000-2020); and
- a constant 15% annual contribution to a 401K retirement account[9], using a 60/40 S&P 500 Index/Bloomberg Barclays US Aggregate Bond Index asset allocation strategy.

For many women, the reality of savings is indeed more complicated than the scenario outlined above. Common perceptions of women 1) being more conservative investors, 2) having a tendency to reinvest earnings on familial versus retirement needs, and 3) being more inclined to leave the workforce during childbearing years, may introduce additional setbacks to income and wealth-building trajectories.

Women’s greater tendency to partake in part-time work relative to men reflects another differentiating factor that has the potential to amplify gaps in long-term asset accumulation. As Exhibit 4 shows, in 2019, 63% of all part-time positions were held by women. A greater likelihood to take on part-time pay not only results in lower overall median earnings of ~$30k per year, but may also limit access to traditional employer-provided retirement benefits, such as a 401k account. Data from the US Bureau of Labor Statistics suggests that only 40% of part-time workers are eligible for employer retirement programs (relative to 80% for full-time workers) and only 22% of them actually participate in the program, equating to a take-up rate of only 55%.

[9] US News, How Much Should You Contribute to a 401(k)? December 2020.

EXHIBIT 4: RETIREMENT BENEFITS ACROSS US EMPLOYERS



Source: US Bureau of Labor Statistics. As of January 22, 2021. 'Take-Up' rate refers to the percent of retirement benefit participants relative to the percent of the population with access to retirement benefit programs.

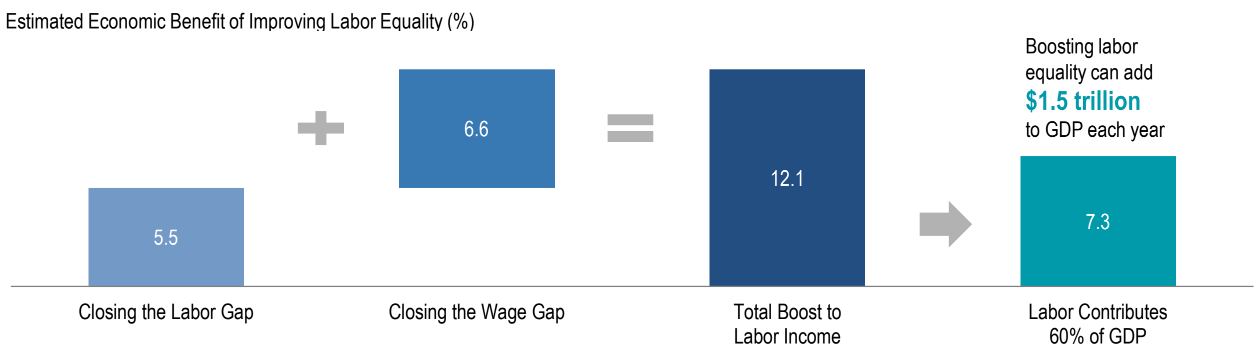
Consequently, female part-time workers may miss out on the benefit of having company-matching programs and a pre-vetted list of sound investment vehicles, leaving them more likely to rely on social security benefits to fund a larger share of retirement spending. This ultimately puts a greater burden on female part-time workers to be front-footed about appropriately saving for the future.

Benefits to Closing the Gap

Economic and market impact of closing the gender gap

A focus on reducing female labor and pay inequalities can result in a sizeable increase to US growth potential, as shown in Exhibit 5. Currently, there is an 11.3% employment-population ratio gap between women and men[10]. Closing this employment gap would mean increasing women's participation in the workforce by 15 million individuals, and in turn, boosting labor income by 5.5%. By also closing the existing wage gap by ~18%, women's labor income would gain another 6.6%, for a total earnings improvement of 12.1%. Assuming labor's share of GDP remains at 60% and earnings correspond to a worker's marginal product, this estimate would imply that labor equality may expand US GDP by 7.3% or $1.5 trillion annually.

EXHIBIT 5: CLOSING THE LABOR AND WAGE GAP CAN ADD 7.3% TO US GDP



Source: US Bureau of Labor Statistics and GSAM SAS Market Strategy. As of January 31, 2021. For illustrative purposes only. The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this presentation. These examples are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially.

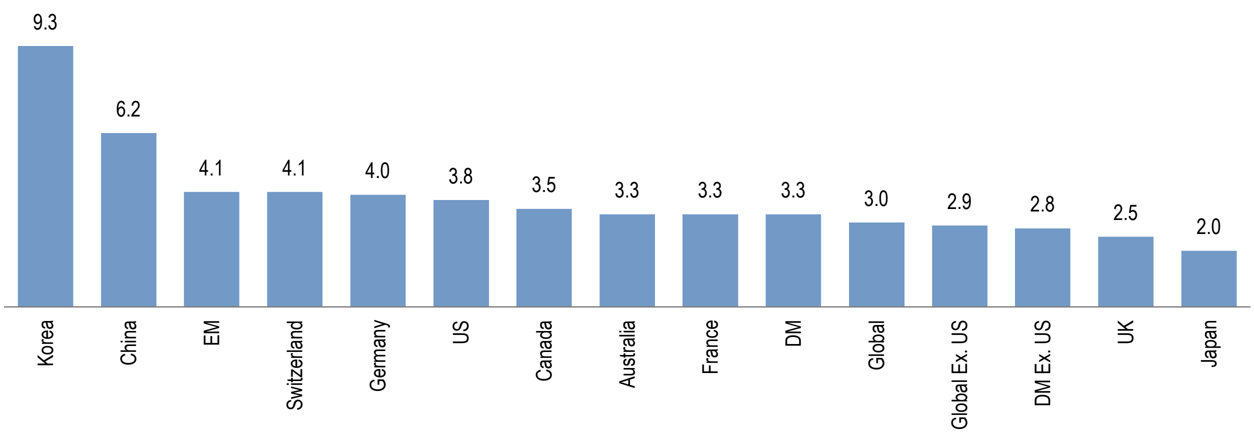
[10] US Bureau of Labor Statistics. As of January 2021, latest data available.

In real-life application, the magnitude of impact from labor equality may vary. On the upside, an investment in women may lift productivity in the workforce (for example through different types of educational or job training), which can have a larger multiplier effect on levels of capital accumulation and innovation in the economy. At the micro level, this can also trickle into improved corporate outputs – either through volume or quality – leading to higher profitability. In contrast, if the labor and pay gaps are solely based on gendered decision making, then closing these gaps may not generate the same productivity gains. A boost in women's earnings may happen alongside a drag on profitability. Ultimately, the source of labor disparity matters.

Beyond labor's direct contribution to GDP, we also see positive externalities spilling over to capital markets. The US remains a leader in the global economy, so a boost in domestic GDP may yield favorable trade dynamics for international counterparts. A study conducted by S&P Global indicates that a one percentage point (pp) gain in US GDP growth can lead to a 3.8% price appreciation in the S&P 500 Index. In other markets, the beta to US growth may be even higher. Consider the South Korean KOSPI, for example. Listed companies on the South Korea index generally have high revenue exposure to US consumers. A 1pp boost in US growth may have the greatest impact on the KOSPI Index performance, as suggested by the estimated beta of 9.3.

EXHIBIT 6: A GLOBAL PICK-UP IN EQUITIES

Stock Market Sensitivity to a 1pp Increase in US GDP Growth (%)



Source: S&P Global, Adding More Women To The U.S. Workforce Could Send Global Stock Markets Soaring. As of 2018. 'DM' refers to Developed Markets. These examples are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially.

Gender diversity may also influence investment performances. While academic literature in the past has not identified any discernible return differences between female-managed and non-female-managed funds, we think 2020's unique experience may highlight the alpha potential that a diverse team can bring to the table.

Female-managed funds are still the minority today. They make up only 13% of all large-cap mutual funds and 12% of total assets under management. Despite their limited presence, however, they recorded better performance pre-pandemic as well as during periods surrounding the market trough. As Exhibit 7 shows, female-managed funds generated a median excess return of 0.5pp relative to benchmark in the quarter preceding March's market bottom. Compared to funds with no female portfolio managers, this reflected a 0.7pp outperformance. Following the trough, female-managers were able to minimize the downside – they avoided 1.2pp of performance drag relative to their male counterparts by the late-summer. In this short period, we saw 48% of female-managed funds generate positive alpha, compared with only 37% of all-male funds. Adjusting for portfolio volatility, a 0.12 differential in Sharpe ratios still existed across the two sub-groups.

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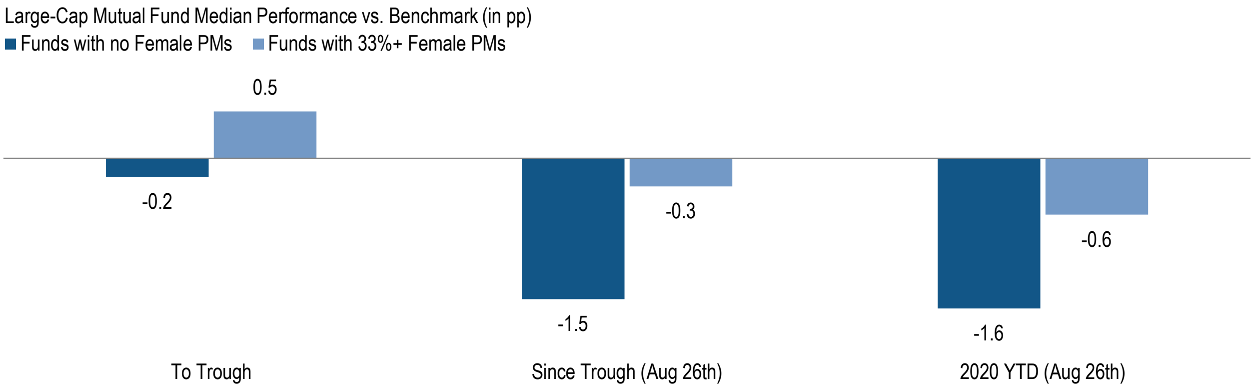
As a general observation, we can point to a few common reasons for this stronger fund performance:

- Greater allocation to information technology sector
- Smaller allocation to cyclical exposures like financials
- Larger tilt toward companies with high projected sales and earnings growth (>4%) while simultaneously reducing exposure to the laggards

Still, the median female-managed mutual fund has experienced slightly larger outflows relative to other funds.

EXHIBIT 7: FEMALE-MANAGERS REALIZED GREATER EXCESS RETURN RELATIVE TO BENCHMARK



Source: Goldman Sachs Global Investment Research and GSAM SAS Market Strategy. As of August 26, 2020.

Actions to consider

We recognize that an investment in women may encourage higher rates of female labor force participation, greater representation in male-dominated industries, and stronger company performance, which should all lead to stronger economic growth. But how do we get there? We believe employing a collection of programs targeting pay, workplace satisfaction, and workforce access can help foster an inclusive environment for women at various career stages. Exhibit 8 reflects a few of these potential solutions.

EXHIBIT 8: CONSIDERATIONS FOR GENDER EQUALITY

Areas of Focus	Actions to Consider
Pay	■ Adopt proactive pay equity laws that create transparency in pay decisions ■ Promote the formalization of the informal economy ■ Establish financial and digital literacy programs targeting women
Workplace	■ Promote gender balance on boards and female senior representation ■ Encourage "upshifting" women into visible leadership positions ■ Establish equitable evaluation and promotion processes that focus on outcome, not face time ■ Increase public visibility of female role models in male-dominated industries ■ Provide comprehensive unconscious-bias training for all employees
Workforce	■ Invest in training and reskilling for women returning to the workforce or those under-represented in fast-growing professions seeking talent ■ Increase public funding for childcare ■ Encourage flexible full- and part-time programs to support increased childcare burden

Source: GSAM SAS Market Strategy.

Conclusion

Global economies have made remarkable strides toward gender parity over the last several decades, and we are hopeful that they will continue in the future. One resonating takeaway from this pandemic experience is that unique circumstances may require creative solutions. In this case, we think corporations can play a large role in providing a support system to empower many female employees. Beyond COVID-19, a continued focus on labor force inclusivity, improving pay disparity, and promoting diversity, can enhance economic outcomes for everyone. We believe that every measure counts, because as Christine Lagarde, President of the European Central Bank says, “empowering women is not only the right thing to do – it makes economic sense.”

Glossary

Alpha is the excess returns versus a benchmark.

Beta is a measure of the risk of a security or portfolio relative to the risk of the market and indicates a security's or portfolio's volatility.

GDP refers gross domestic product.

'Pp' refers to percentage points.

Sharpe Ratio is calculated by taking the excess return of the fund versus the risk-free rate and dividing that result by the standard deviation of the fund over that same period.

Indices

The Bloomberg Barclays US Aggregate Bond Index represents an unmanaged diversified portfolio of fixed income securities, including US Treasuries, investment grade corporate bonds, and mortgage backed and asset-backed securities.

The S&P 500 Index is the Standard & Poor's 500 Composite Stock Prices Index of 500 stocks, an unmanaged index of common stock prices. The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

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