

## Are we nearly there yet?

*'I think you've all got to remember that we will get through it in the end, it will all be right but it might take time. All the people finding it difficult at the moment, the sun will shine again and the clouds will go away.'*

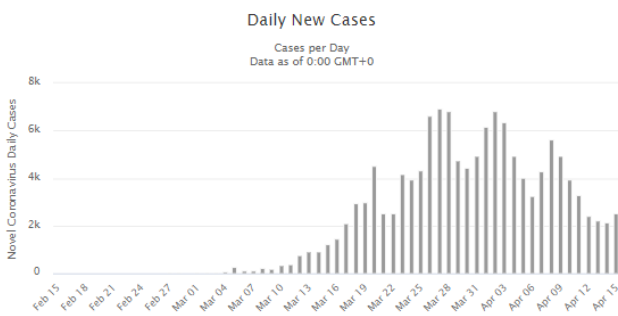
Captain Tom Moore, aged 99, on completing 100 laps of his garden and on his way to raising £17 million for the NHS in the process.



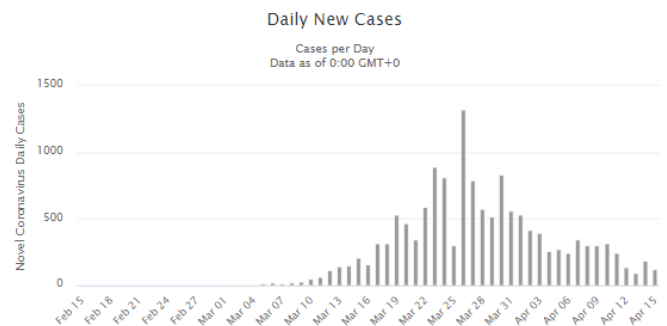
European stocks rose early on Thursday morning in reaction to the news that countries across the continent have announced plans to start reopening their various economies, ranging from general retailers to primary schools.

Of course, we know that countries like Germany and Denmark are further along the “Covid-19 Curve” than the UK, and we can see this clearly when looking at the excellent data provided by [www.worldometer.com](http://www.worldometer.com)

Daily New Cases in Germany

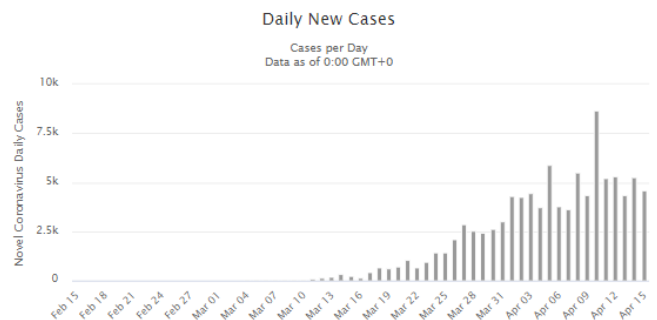


Daily New Cases in Austria

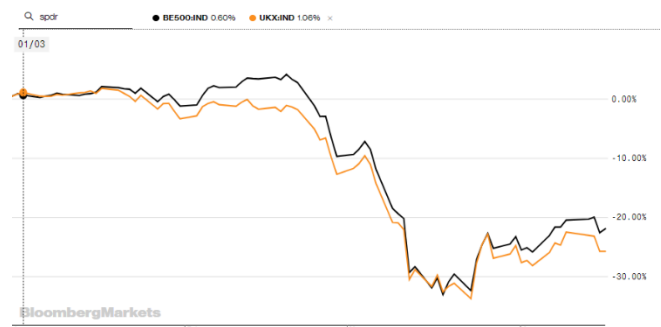


Meanwhile, Health secretary Matt Hancock has announced a 3-week extension to the lock-down period saying that it was too early to make changes. Based on the UK data, this management of expectations would appear in line with the experience of Germany, for example, and may even be a little conservative. If the daily data really has stopped rising, then there is surely cause for optimism that some loosening of the shut down may come even by the end of April....

Daily New Cases in the United Kingdom



Interestingly, however, both the FTSE and the eurozone benchmark indexes bottomed and turned together within the 5 trading days between the 17<sup>th</sup> and 23<sup>rd</sup> March. For those watching in black and white, the lower line is the FTSE100 since the start of 2020. The upper line is Bloomberg European 500 Index of the largest European companies. Chart courtesy of Bloomberg:



Even in the midst of the most difficult and confusing situations, the stock market does its best to price the value of everything 9-12 months hence. In terms of momentum, we can see that both the UK and European markets have done just that, as has the US, because even as the full scale of the pandemic became apparent, it was generally acknowledged that some kind of recovery, both from the virus and economically, would be possible, indeed likely, by the end of summer.

Even now, that seems like a bold claim when, by any measure, the future of large swathes of the UK seems to be hanging in the balance. However, even shares in those companies who are in almost complete lock down, such as airlines, cinemas and pubs & restaurant chains, have bounced considerably from their lows in March when the stock prices of some were clearly indicating a strong possibility of bankruptcy.

The UK Government and Bank of England measures to provide businesses with support is, on the face of it, impressive although the implementation is clearly not going well. In the words of ex-Bank of England governor, Lord King, "Something has gone wrong. I am worried". As at the time of writing, only 4,000 of the 300,000 companies that have applied for funding have received anything. Furthermore, the money lent out so far, a mere £800 million represents just 0.25% of the total £300 billion supposedly on offer.

This has to be sorted out if there is to be a more optimistic view on the state of the economy in the 3<sup>rd</sup> and 4<sup>th</sup> quarters. Speculating about a return to normality for the top UK companies in the FTSE100 is futile if a large part of the broad base of the economy, made up by small privately owned companies, shuts down for good.

When it comes to putting a fair price on big companies, some discount on recent sales and profits has already been applied and is reflected in the FTSE100 falling 25%. In terms of valuation, at the start of the year, the FTSE100 was valued with a trailing price to earnings ratio of 16x. That is to say that if you can visualise buying a company outright with your own money, you would get your money back through profits in 16 years. As of today, that ratio is now down to 12x. This is the lowest it's been since at least the early 1990's except for 2008 (Great Financial Crisis) and 2012 (Greek eurozone crisis) and both of those were essentially banking crises which make up a significant chunk of the FTSE100. From a valuation standpoint, stocks haven't been this cheap in living memory despite the FTSE100 "only" being back where it was in 2015.

Now for the purist, I know that using a trailing PE is unorthodox in our profession since we normally spend our time worrying about FORWARD PEs – next years profits, and so on. However, I would suggest that using trailing PEs is justified in a crisis like this where we are, essentially, pondering the question of how long it will take to get back to the levels of sales and, therefore, profits companies were enjoying just a few months ago. This is hard enough without trying to overlay the familiar list of dreads we were discussing at year end including, but not limited to: Slowing global economy, Chinese vs US trade war, Brexit, upcoming US election and, of course, the new one, a OPEC vs Russia oil production war. That is a discussion for another day.

Whilst it is clear that some permanent damage has been done to individual companies, each with their own unique circumstances, it does appear, in our view, that the current level of the FTSE is still cautiously factoring in room for disappointment. We can expect any curtailment or extension of the lockdown period to feed directly into the performance of the FTSE. For now, time is everything.

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