

Markets appear to be finding a level

By any measure, daily moves of +/- 3% in the UK stock market index is very volatile and would be worthy of headline news. Measured against the 30% fall from 7,400 down to 5,400, these movements attract little comment. However, the UK large cap stock market index does appear to have found a level, roughly between 4,990 to 5,150, which is attracting speculative buying.



There are various ways to measure what makes for a bargain and price alone is not the case when talking about stocks. Stocks trading on low prospective earnings ratios are obsolete because we are only just starting to understand the impact of the Covid-19 pandemic on future company profits in sectors ranging from airlines to mining.

Similarly, dividends are also in jeopardy no matter how solid the payment history has been in the past. Many companies have already cut or suspended their dividend payments to preserve cash through this period of uncertainty. Ten more companies, including Next, Go-Ahead and Kingfisher made such announcements yesterday.

Nevertheless, there is a growing sense that the crisis could be temporary in that a lot of economic activity and consumption may be delayed rather than destroyed for good. This makes it a very different downturn to a normal recession because, far from trying to stimulate the consumer to get out and spend, they are being told to stay at home and do nothing.

It is true that the long-term effect on unemployment is not yet fully understood nor the cost to governments for supporting the population. Nevertheless, well established and well managed businesses with excellent business models will not go to the wall if governments and the banking sector cooperate to support them. In normal times, that would be hard to imagine but extraordinary times call for extraordinary measures.

Of course, goodwill and government policy is not easy to measure. Stopping the entire retail, hospitality and leisure sector from falling into bankruptcy has more to do with common sense than allowing capitalism, red in tooth and claw, to despatch good companies who fail to meet a banking covenant.

In our opinion, we are therefore at a point where the clear opportunities have presented themselves and need to be weighed against the risks of full structural breakdown.

We know what the best British companies are capable of in normal times and, for that matter, during difficult times such as the 3 years of Brexit uncertainty; a distant memory.

It is too early to be unambiguously optimistic and bullish on stocks. But if we are reaching the point of maximum uncertainty in this pandemic, this may be the price point where the value of everything started being seriously considered against the potential risk.

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