Reasons To Be Cheerful, 1, 2, 3

"A bit of grin and bear it, a bit of come and share it, you're welcome, we can spare it." (Ian Dury, 1977)

By Mary Tait, Investment Director, FIM Capital Limited

As standard procedure, the telephone lines of stockbrokers and investment managers are recorded to verify dealing records. Imagine my embarrassment, when, about 20 years ago, I received a call on my dealing line from my husband who (for japes) pressed his Nokia 3310 up against the speaker of his car stereo, playing the first stanza of 'Plaistow Patricia' at generous volume. While I couldn't possibly repeat the opening lyrics of this song in civilised company, alien as it was to my upbringing on a diet of Catholicism and Duran Duran, they just about sum up my reaction to market behaviour over recent weeks. This memory evoked another classic by the late Ian Dury who, despite the media's largely successful attempts at inducing mass panic, once promised us three reasons to be cheerful.

> **Never has fiscal generosity been so inexpensive and easy to grant. Cheer might not feature on the agenda this summer but hold tight and this crisis will eventually pass**

On the Isle of Man (and just about everywhere else) consumer-facing smaller businesses are reeling from the social impact of COVID-19. It pains me to see local enterprises issuing vouchers for deferred spending, crowdfunding to stay solvent, or closing their doors, perhaps permanently. Larger companies, however, have greater options. Amidst the gloom of mid-March, one of the world's largest food distribution companies, Sysco Corp., which forms part of our Pound a Day American Selective portfolio, provided us with two updates. The first informed us that the company was distributing 2.5m free meals to the needy nationwide. A tick in the box for social awareness. There was also solace for investors, as their shares have since rebounded by over 40%.

Like many proactive mega-capitalised firms with access to cash, the company also revealed that it had drawn down additional credit facilities of $1.5bn, now maintaining $2bn of cash on hand. With many fingers in many pies (quite literally), Sysco reminded us of its flexibility to defer capital expenditures on non-urgent projects and reduce variable expenses, tightening receivables while also developing new source revenues. The company is using its considerable expertise and economies of scale to provide much needed additional services to the retail grocery sector, currently strained by panic buying.

In the UK, a statement was issued by the safety and medical equipment specialist, Halma PLC, which reported strong operations across all units, especially Infrastucture Safety (which provides solutions for water scarcity, food security and medical services). Moreover, we have seen the creation of "Ventilator Challenge UK", a consortium of fourteen firms backed by engineering specialist, Smiths Group PLC and including Rolls-Royce PLC, BAE Systems PLC and Renishaw PLC, sharing intellectual property and manufacturing firepower to create 10,000 new medical ventilators.

Necessity remains the mother of invention. Most certainly, this crisis has thrown into stark contrast the varying fortunes of big and small, as the former divert capital expenditure, draw down credit facilities, borrow from capital markets at near-zero finance costs (more of that later) and use their vast economies of scale to protect margins.

When the world last went barmy in 2008, I was an investment manager in a team of one, sharing ideas with me, myself and I. One strategy I deployed was to protect drawdown from portfolios by taking profits from cyclical holdings and buying AAA-rated corporate bonds, then yielding 4-5%. This turned out well, benefiting from the subsequent massive yield compression, as interest rates were systematically slashed in the following decade of financial repression. Interest rates have since seen the central bank version of a dead cat bounce, a feline culled by co-ordinated action of central banks which have brought overnight lending rates within a shave of the zero bound. Selling shares in high quality companies (like Sysco or Halma) to cash now would be the equivalent of selling a silk purse to buy a sow's ear.

As for tactical cash allocation, Peter Lynch, a former celebrated fund manager at Fidelity, delivered impressive returns for his investors during his thirteen-year tenure (annualising 29.2%), based on the adage that "stocks are relatively predictable over twenty years. As to whether they're going to be higher or lower in two to three years, you might as well flip a coin to decide." Of course, we appreciate the stomach-lurching uncertainty of the current situation: we too have skin in the game and it's also feeling somewhat burnt. However, unlike bonds (with fixed maturities), we are investing in company cash-flows and earnings over the next decade or two, not just for the next six lean months.

So, what is my third reason to be cheerful? On 16th March 2008, an 85-year-old investment bank called Bear Stearns narrowly avoided bankruptcy, sold to the highest bidder (JP Morgan Chase) for $2 per share. On 15th September that year, Lehman Brothers filed for Chapter 11 bankruptcy. Despite these portents of the Great Financial Crisis, the Troubled Assets Relief Programme (TARP) was not signed into US law until 3rd October 2008. Interest rates in the US were quickly slashed but, as suggested earlier, corporate borrowing was still expensive compared to today's giveaways. Political manipulation and concerns about bailing out the bankers got in the way of damage limitation. The situation was even worse in Europe. A lack of fluid monetary and political mechanisms meant that their financial crisis did not peak until 2010-2012.

Throwing a cliché into the mix, this time it's different. We have a humanitarian crisis accompanying a global pandemic, involving mass unemployment, overburdened healthcare systems and creaking global travel infrastructure. This is a clear pass for politicians and policymakers to throw the baby and bathwater at the problem, thinking later about fiscal probity once the crisis has passed. Within one week, we have seen eye-watering, globally co-ordinated backstops offered to credit markets, interest rates slashed (even) further, while front line fiscal aid has been dealt out for struggling industries, the NHS and the gig economy. Never has fiscal generosity been so inexpensive and easy to grant (apart from some inevitable bipartisan squabbling in US Congress).

Cheer might not feature on the agenda this summer but hold tight and this crisis (and my swearing at market monitors) will eventually pass.