Suspension Of Disbelief

"We shall not cease from exploration
And the end of all our exploring
Will be to arrive where we started
And know the place for the first time."
(T. S. Eliot, "*Little Gidding - Four Quartets*", 1942)

by Russell Collister, Chief Investment Officer, FIM Capital Limited.

The stock market, frequently an enigma, has played a blinder. As countries around the world queue up to report their worst ever falls in economic growth, equities have been rising. From the pandemic equivalent of ground zero in late March, in sterling terms, global equities have risen by over 25%. We are almost back to where we started at the beginning of the year.

But no cure has yet been found for the COVID-19 supervirus, no miracle panacea, no wonder drug. Surely the stock market should be down and out, routed, flattened. Worn down by the prospect of what lies ahead. Instead, the equity rally seems to resemble fake crowd noise at newly televised football matches, piped in to recreate normality.

It is not, however, background commotion which has driven the market recovery, but money, and lots of it. Since the crisis began, the Federal Reserve Bank has injected nearly $3 trillion into the economy, buying up fixed interest securities in a show of strength unparalleled in history. In co-ordination with other central banks, the Fed has also cut interest rates (nearly to zero). The cost of this action will be felt for years to come, but the prospect of ultra-low rates for the foreseeable future has driven parts of the stock market to eye-wateringly high levels. But this may well be the new norm and, if so, we need to get used to it.

What we have witnessed over the last few months has been an unstoppable surge towards trends which may otherwise have taken years to develop. Shopping centres have closed, e-commerce is booming; the climate is a little greener; new drugs are being developed; offices are emptier, technology is advancing. Zoom, a hitherto obscure tech stock is now worth nearly as much as BP, once a stockmarket titan.

Fundamental analysis is a primary component of any professional investor's toolkit, but it needs to be constantly adapted to meet modern times. This means embracing technology (now one fifth of the world equity index) and ruthlessly culling companies which have lost their relevance in the post-coronavirus world. As we enter the third quarter of the year (and the anticipated bloodbath of Q2 results), the tide is rapidly ebbing and many are looking somewhat exposed, including the Berkshire Hathaway chairman himself.

The crisis has also put paid to the long-term dividend aspirations of nearly half of the UK stock market. By the end of the first quarter of 2020, nearly £24bn of income had been scrapped with the promise of more to follow. Many of the dividend cutters used COVID-19 to save face but, in practice, some could barely afford to fund their dividends anyway, even before the pandemic.

This, then, is the perfect environment for stockpickers to flourish. Unlike the last ten or so years, we do not expect the wider stockmarket to be anything like as easy going forward. The race to find potential winners and losers for the next generation has accelerated. Yes, it requires disciplined investment analysis, but it also requires confidence and imagination to look through a set of accounts to visualise the potential value of a company over the next few years. So fast is the world moving, that the best performer in your portfolio over the next 5 years may not have been invented yet.