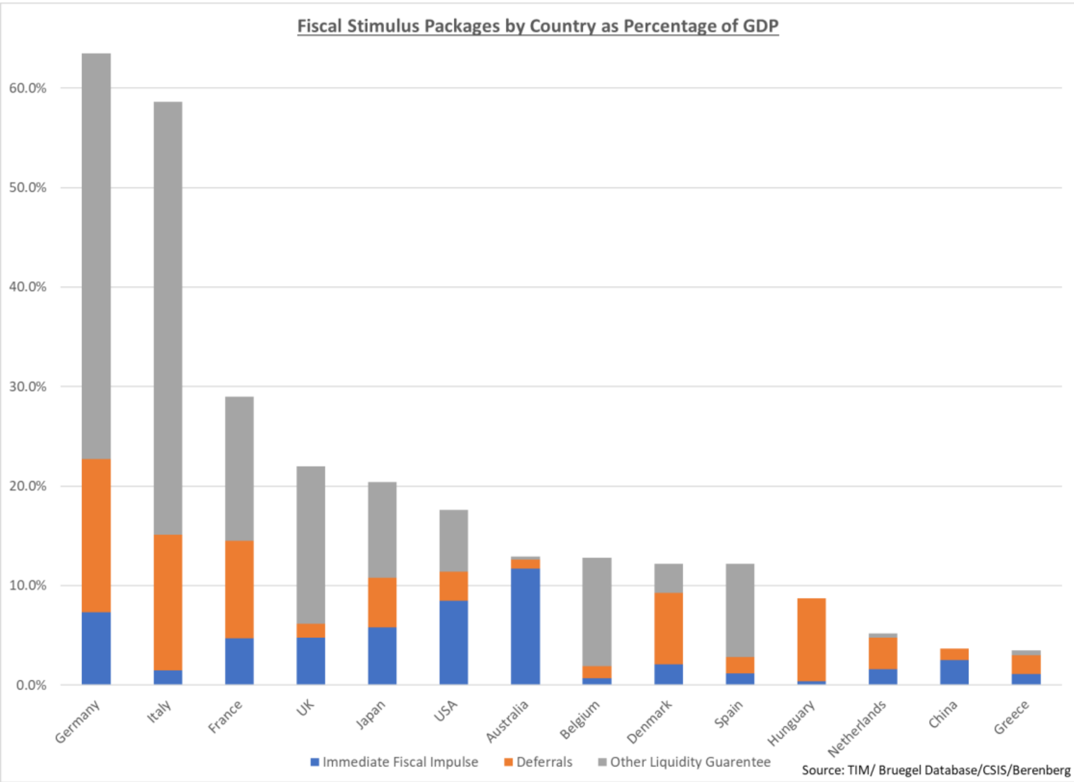
VT Tyndall Global Select Fund

COVID-19 Commentary 22nd May 2020

TYNDALL

Is This Enough, Or Are Economies Still Reliant on Life Support?

The scale of governmental support offered to companies and people alike over the past few months has been on a scale unimaginable prior to the outbreak of the pandemic. Fiscal rules and monetary restraint have been cast aside as the desire to keep jobs open and companies afloat outweighed the long-term problems of repayment obligations.



There are various predictions as to the shape of any recovery, and anyone who claims to know is just guessing. In a survey by McKinsey & Co of over 2,000 global executives the two most popular outcomes where, a Nike 'swoosh' (31% of respondents) or a u-shaped recovery (16%). Markets remain volatile, where a faint sniff of a positive vaccine trial sends markets rapidly upwards, while a downbeat comment from people, such as the Chairman of the Federal Reserve, Jerome Powell, often has the opposite effect. Unquestionably the success of finding a vaccine, producing it at a scale to supress a second wave and the timelines will all play a significant part as to how quickly the global economy manages to recover. The stock market will remain a forward-looking barometer on progress in any of these respects.

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Change in Real GDP Q419- Q220 under different recovery scenarios

	China	United States	Eurozone	UK	World
Nike 'Swoosh'	-5.7%	-11.2%	-14.6%	-11.5%	-8.4%
U-Shaped	-4.9%	-8.1%	-11.0%	-8.9%	-6.5%

Source: McKinsey & Co/Berenberg

Under either of these scenarios, given the scale of stimuli offered by many countries (as in the chart above), the ramifications of lockdowns on spending and global trade may be suppressed. If this proves to be the case than the Chancellor of the Exchequer and his foreign counterparts will feel vindicated for their profligacy.

Should the world avoid a second wave, how to wean economies off their morphine will prove a challenge, and cold turkey is not a viable option. Some industries will take longer than others to recover, and some are likely to be found as terminally impaired. Furloughing schemes, such as that in the UK, which cost the same amount per month as the NHS, cannot go on indefinitely, especially as the taxpayer is likely to end up footing the bill, so companies will have to recognise the need to pay their own way. Taking a Darwinian approach, the need to 'adapt or die' has never been more pertinent.

Digitalisation has proven to be a winner during the lockdown, and it is likely that policies around remote working, travel, social and mental wellbeing will all become central parts of business plans going forward. Companies such as American Express, Google and Facebook are already suggesting that most their employees should work remotely for the rest of the year; as office working environments try to adapt to social distancing and we do believe that they will not be alone in this respect.

In the short-term, we would not be surprised if the 'stay at home' stocks will underperform as investors will likely chase any bounce in more cyclical and leveraged companies, in the belief that governments have done more than enough to 'save' the global economy. However, saving the economy and improving company profitability are two very different end states. When the dust settles on this burst of euphoria, we believe that its will be quality cyclicals, cash generative 'whatever the weather' quality growth companies and those firms that have adapted to, or enabled the changes underway in the way that we work that will outperform.

By staying true to the principles that we outlined last week, which can be found on the following link, (https://www.tyndallim.co.uk/a-great-brand-is-a-story-that-is-never-completely-told/), we believe that the Fund has built up a selection of interesting and compelling investment opportunities that can stand the test of time; many of our holding have already shown their ability to do so, having been in the Fund for the past 11 ½ years.

Have governments done enough? Only time will tell, so sticking with companies that are not reliant on state support would seem to be a prudent approach. Having robust cash flows and the ability to invest (while more leveraged peers cannot) will result in these companies emerging out of the other side of the pandemic in a stronger place than many of their peers, capturing the lion's share of any market growth.

Richard Scrope, CFA, Fund Manager, VT Tyndall Global Select Fund, 22nd May 2020

Source: Bloomberg unless stated otherwise

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