July 2020

Half Price Meals to Save the Day?

The initial response to the Covid-19 crisis was led by Central Bankers who reacted with breath-taking speed and magnitude (with many conducting emergency meetings) to ensure that the unfolding damage from the pandemic would not cascade into a full blown financial crisis and economic depression. The moves by the central bankers saw interest rates cut across the globe, liquidity pumped into bond markets and currency swap lines opened. Thankfully, the mistake of the delayed monetary policy reaction post the Great Financial Crisis was not repeated. Uniquely, with this pandemic and the required economic lockdown, the damage to Wall Street and the High Street manifested concurrently. This provided an opportunity for governments to use the fiscal tools at their disposal and provide another form of stimulus (in conjunction with that of Central Banks). More noteworthy, no government felt compelled to limit the size or the structure of the stimulus programmes required.

In Europe, the budget deficit and Debt/GDP targets in the Stability and Growth pact were suspended, with some European politicians requesting permanent abandonment of these fiscal discipline measures. In Hong Kong, "helicopter money" arrived in the form of a cheque of HK$ $10,000 (US$1,200) for every individual over 18, a program that was replicated in the US with direct payments to Households. In some government rescue programmes it was more lucrative for an employee to participate in a job preservation/furlough scheme than remain working in their existing job. The latest fiscal stimulus measures offered by a government was announced in the UK this week by its Chancellor, Rishi Sunak. Expected conventional measures such as a cut in the VAT rate for large parts of the hospitality sector were combined with more imaginative programmes. One such innovative programme is a 50% discount on restaurant meals of a maximum value of £10 per diner when ordered Monday, Tuesday and Wednesday during the month of August. The UK governments "eat out to help out" initiative has unsurprisingly been renamed by some as "Rishi's Dishy". The UK governments latest proposals does highlight that the most recent 2020 fiscal stimulus programmes have a different objective to their predecessors. Where originally they were introduced as a backstop to economies in freefall, they are now being implemented to reinvigorate economies. But what does this abundance of fiscal and monetary stimulus mean for investors?

In the short to medium term the impact from the stimulus will be dictated by the path of the virus. Until a medical solution is found and normalised economic activity returns, it looks likely that each wave of the virus will be matched with a wave of stimulus actions. Longer term there will be important consequences associated with the policy actions taken by Central Banks and governments to combat Covid-19, not least with the explosion in debt.

Elevated amounts of debt throughout the economic system will eventually have to be addressed and the theoretical solutions ascribed below may prove painful for different parts of society.

- The draconian answer is some form of default on ones obligations, which in the years ahead may be the preferred option of many emerging and frontier countries and highly leveraged corporates with impaired business models.
- Ideally, the stimulus that has been provided is capable of creating enough growth to place debt on a viable future path, as exemplified by many countries and corporates post WW2.
- Tax increases and spending cuts could be enacted to “balance the books” but this would prove highly unpopular with voters and can have an regressive impact on growth if applied inappropriately. Whilst corporates could reduce their investment plans with long term repercussions for their future potential growth rates.
- The scale of liquidity injection in to the financial system has encouraged monetarists to trumpet the return of inflation in a meaningful way, which would reduce the real value of debt. The level of inflation expected in the long term remains a source of significant debate amongst economists but we would argue that it will largely be dependent on consumer confidence.

In the short run, we maintain our belief that policymakers will endeavour to apply the required strategies to ensure a sustainable recovery however, investors will likely continue to experience bouts of volatility largely sourced from the behaviour of Covid-19. In the longer run, the overhang of debt and the uncertainties associated with a potential solution will require, more than ever, intelligent investment selection decisions with regards asset allocation and individual securities.

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Appian AM NAV's Fund Prices 30-06-2020

NAV		YTD	SI	QTD
		%	%	%
AMAF	**144.6067**	-9.14%	44.61%	6.94%
AGDGF	**166.5643**	-22.30%	66.56%	10.52%
AGSCOF	**141.6033**	-24.38%	41.60%	16.42%
AIF	**102.4709**	-7.48%	2.47%	9.89%
AELF	**103.3059**	-0.39%	3.31%	-

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