

## Opinion

# Coronavirus: Waiting for the clouds to clear



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It is clear that things will get worse before they get better as far as normal life, and economic and business life, are concerned.

That does not mean, after the very sharp recent market falls, that the situation will necessarily get worse, because markets make their judgements about circumstances and prospects and may already be discounting the problems that coronavirus is creating.

However, we can be fairly sure of continued turbulence. Governments will need to bail out operating businesses and consumers. There may be helicopter money – money distributed to citizens either

indirectly through postponement of taxes or directly, as in Hong Kong through provision of cash, a one-off universal basic income.

Government debt, already high, is likely to rise precipitously, initially as part of the relief operation and then, when coronavirus has peaked and some normality is returning, to stimulate economic recovery from the present recession.

Central banks may buy newly issued government bonds on a massive scale. Such monetary largesse can normally be expected to weaken the currency, but not if everyone is doing it. It can also be expected, ultimately, to be inflationary, but these are very deflationary times, all the more so because of the Saudi-Russian oil war.

The much respected chairman of Mercury Asset Management, Peter Stormonth Darling (who died last year), used to say 'do nothing.'

We never know. At times like this that seems true in spades: nobody knows. Doing nothing cannot be the best response, but it may be a better response than anything we would be likely to do if we did anything. The clouds will clear: we will still not know, but we may have a better idea.

We have to be sure that the companies whose shares we hold will get through a period in which their income is a fraction of the normal level while their fixed costs largely remain. That is stage one. Some day, normal conditions will return.

Thereafter the question is whether the norm will be much the same as the norm pre-coronavirus. Trying to work this out, for different companies and sectors, is stage two.

This fund, like all our others, is an equity fund. Even in dire times, even in times of great uncertainty and great volatility, we remain convinced of the long-term benefits of equity investment. It is not for those with a short-term outlook, but over the long term we believe that equities, in general, and the equities we choose for the fund, will provide a good after-inflation return.