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	1/7/18	5/10/18	1/1/19	5/4/19	1/7/19	5/10/19	1/1/20	5/4/20	1/7/20
FTSE 100	7637	7319	6728	7447	7426	7155	7542	5416	6170
FTSE All Share	4202	4078	3675	4067	4057	3933	4196	2958	3411
Dow Jones (US)	24271	26447	23327	26425	26600	26574	28538	21053	25813
S&P 500 (US)	2718	2886	2507	2893	2942	2952	3231	2489	3100
Nikkei 225 (Japan)	22305	23784	20015	21808	21276	21410	23657	17820	22288
PIMFA Balanced	1597	1578	1484	1610	1632	1643	1679	1389	1574

Growth Equities	Higher Yield Equities	Mid-Cap Equities	Overseas Equities	Collective Investments
Avast	Admiral	Dechra	Adyen	Fidelity European Values I/T
Bunzl	BATS	Diploma	Amazon	Henderson Smaller Companies I/T
Croda	National Grid	Fevertree	Ecolab	HICL Infrastructure I/T
Diageo	Rio Tinto	Hill & Smith	Microsoft	Polar Cap Technology I/T
Experian	Severn Trent	LondonMetric	Nike	Scottish Mortgage I/T
Intertek	SSE	Rotork	Novo Nordisk	Smithson I/T
Reckitt Benckiser	Unilever	RWS	PepsiCo	Trojan Global Income Fund
Smith & Nephew		UDG Healthcare	Visa	3i Infrastructure I/T

We'll Meet Again.

As we reflect on the remarkable life of Dame Vera Lynn the words in her signature song are as poignant now as when they were written. Indeed, the Queen quoted them in her speech on 'lockdown' some weeks ago:

> *"We'll meet again, don't know where, don't know when*
> *But I know we'll meet again some sunny day*
> *Keep smiling through, just like you always do*
> *'Till the blue skies drive the dark clouds far away".*

I wrote in our last newsletter that, as social beings, we need contact with others to thrive. I have faith that in the not too distant future we will all be able to meet again and, unbelievably, this could now be in the pub! Of course 'pub' is an abbreviation of 'Public House' which in its 17th century definition was "open to the public without membership or residency", therefore the opening of the pub surely signifies that, finally, we have been granted our right to freedom of choice again.

At the outset of this newsletter I wish to apologise for one aspect of my April edition – my unwavering faith in the incumbent Cabinet to see us through this pandemic in an orderly manner. This appears to have been a little misjudged. As stockbrokers we are only too aware that hindsight can 'come back to bite' as we too make judgments given facts at a certain point in time. But what I struggle with is the lack of accountability from our decision makers; there is little explanation of their processes, bar the rather non-descript "scientific advice", and they cannot accept any miscalculation or that a certain policy didn't work.

Indeed it would be nice, on occasion, to hear "we're sorry we got this wrong, this is how we are going to change tack" particularly from Mr Hancock who's latest error has been on the 'track and trace app' where having defied advice given to him by technology experts he has now had to accept (or not) that it doesn't work on a certain type of telephone. Not Nokia or Samsung but Apple!

We all know that Covid-19 and the balance between people's well-being and getting the economy back on track is a more complex puzzle than the Minotaur's Labyrinth, so I'm sure the public would be both forgiving and patient if there was a little humility. I say this with a degree of trepidation as a 41 year old, but I do think it would be more reassuring to see a few more 'grey hairs' within the cabinet given the wisdom and sense which often comes with them.

In April I felt the press were hindering the politicians with their rather petty, individual scenario type questions. However, this was when the message was clear; stay at home, to protect the NHS and save lives. However now the message has become opaque they are absolutely right to try and seek clarity on our behalf. We have seen the slogan change to 'stay alert', whatever that means. It sounds like a driving test, perhaps the infamous one Dominic Cummings took at Barnard Castle. The risk level has dropped to 3 (out of 5) yet there is evidence of Covid-19 clusters re-emerging and Leicester has gone back into lockdown. Children are back at school and employees are back at work but we aren't allowed to have anyone in our houses. This contradiction seems somewhat ludicrous.

That said, I do still feel a degree of empathy for our leaders. If the British public could take some responsibility for their own actions, most importantly being respectful of other people's views (another debate in its own right), we might all be able to 'crack on', choosing ourselves whether to remain in lockdown or to go about our lives in a sensible, socially distanced manner.

Since 5th April

6th April – Boris Johnson is admitted to intensive care and Dominic Raab is charged with leading the Government. Johnson leaves hospital on 12th April to recover at Chequers.

15th April – The real crisis in care homes is made public as it is reported that deaths are at 1,400 not 217 as indicated by the ONS (Office for National Statistics). The inability to look after our most vulnerable has been the saddest mistake of the whole pandemic. Saving the NHS at all costs consequently put care homes in danger and it was heart breaking to see. Furthermore the number of deaths in care homes has been so disproportionate it has significantly skewed the statistics by which the Government are judged.

1st May – Matt Hancock proudly announces that his target of 100,000 daily tests was achieved, although the numbers fell in the following days and there were questions about whether the sending of tests in the post was actually 'creative accounting'.

5th May – The Government's coronavirus advisor Neil Ferguson (whose advice led to lockdown) resigns following photographs of him leaving his girlfriend's house, breaking his own rules! The number of decision makers who have broken protocol is frankly shameful when the vast majority of the population have abided by the rules.

10th May – VE day is celebrated on its 75th anniversary.

12th May – Rishi Sunak extends the furlough scheme to October (having lengthened it to June just days before).

22nd May – We are made aware of Dominic Cummings' trip to Durham. This was soon followed by news of his drive to Barnard Castle to 'check his eye sight' and then his speech on a Sunday evening in the garden of 10 Downing Street, followed by a week of narrative from Boris Johnson defending him. You couldn't make it up.

25th May – George Floyd is killed at the hands of police in the US in a barbaric act which went on to fuel "Black Lives Matter". Subsequently we have seen many public figures, particularly those in the entertainment industry, apologise for their portrayal of characters with ethnicities other than their own. Things have got to change.

28th May – We all clapped for carers for the final time before the gesture lost its impact.

1st June – The final of three Brexit virtual meetings (rather than virtual Brexit meetings!) is held. Boris Johnson remains steadfastly resolute in both his Brexit approach and his desire to form trade deals with the US which will mean chlorinated chicken hits supermarket shelves – no thank you.

8th June – New Zealand lifts all Covid-19 restrictions after no new cases have been announced for 2 weeks. Over in the UK the Black Lives Matter protests take hold with the statue of slave trader Edward Colston being toppled in Bristol – even Winston Churchill, standing proudly in Parliament Square, came under threat for being 'racist'. I cannot understand the rationale here.

15th June – Non-essential shops are allowed to reopen.

16th June – Marcus Rashford's campaign to extend free school meal vouchers over the summer holiday is successful. It has not gone unnoticed that he wears "number 10" for Manchester United and is demonstrating leadership and compassion in equal measure. It is really great to see a footballer doing something so positive.

16th June – Dexamethasone, a steroid, is found to help in the Covid-19 fight for the very ill.

17th June – The Premier League returns but without crowds, finally providing some alternative viewing to Netflix. After 30 years since their last league championship Liverpool have now lifted the Premier League title although it appears Norwich City's fate has been sealed.

18th June – The aforementioned Dame Vera Lynn died at the great age of 103, what an inspirational woman. People who live alone or just with young children can meet inside the home with one other household.

19th June – Covid-19 alert is lowered from 4 (rising exponentially) to 3 (in general circulation).

20th June – A terrorist stabs 3 people in a park in Reading in yet another chilling atrocity.

24th June – At a rally in Phoenix Donald Trump refers to Coronavirus as 'Kung Flu'. He is happy to say such things at a distance but when he meets with the Chinese Communist Party he seems to have "great conversations" and is best pals with them. Frankly he's a coward.

25th June – Sir Keir Starmer sacks Rebecca Long-Bailey (a Corbynite) for antisemitism.

Meanwhile, Boris and Carrie had a baby, the Chelsea Flower Show debuted on-line, Sir Richard Branson said he would mortgage his island to refinance Virgin Atlantic and a commercial spacecraft was the first to dock at the International space station.

Although it is pleasing that the number of UK based Covid-19 related deaths has trended lower, sadly new epicentres have been formed and the rate in other areas of the world, such as South America, is rising rapidly.

In the US, New York has passed the catastrophic phase but outbreaks in other states, particularly in the south, suggest the virus remains highly transmissible. This does bring into question who actually runs America? The President or the local Governors each with their own policy (which is probably more sensible than their leader's advice to drink disinfectant)!

We all saw pictures some months ago of Jair Bolsonaro refusing to social distance; as feared this leadership has backfired with Brazil now 2nd behind America in the number of cases and although such numbers are potentially misleading (since they are distorted by how many tests are conducted and population density) this is nonetheless unwelcome news. India and Mexico have seen growing numbers and the significant shortage of healthcare in developing countries is cause for major concern. South Africa has now seen significant outbreaks and so it goes on. Covid-19 has ripped through our planet.

Irregularities

Dominic Cummings – hypocrisy of the highest order needs no further comment. However, Johnson's loyalty was quite astonishing and questions have been asked as to who in fact is the puppeteer. Despite his protestations to the contrary, we are currently unsure as to whether Boris has returned from his bout of the disease with the same gusto and 'puff' as before.

Sport – I was somewhat uneasy about the decision that those of us privileged enough to be members of golf clubs or indeed tennis clubs (where both players have to hold the balls) were allowed to participate in their favoured pastime, yet a kick around (using your feet) in a park was not permitted. I can hear Matt Hancock preaching to teenagers, who aren't at great threat from the disease but have given up so much, "you can go for a walk in a park"…he's out of touch.

Track and trace – I've mentioned the App but the 'old school way' of reporting who you have been in contact with to ensure they don't see daylight for 14 days is even less satisfactory since it is reliant on you knowing who you've sat near to on the bus. It should be mentioned that the testing system now seems to be timely as you get both the test and the result rapidly which has been a breakthrough for the government.

Drugs – we have recently heard that the USA has bought up every last drop (more than 500,000 courses) of Remdesivir which is said have a positive effect in diminishing the time to recovery. Curiously it is Europe who will suffer the most as Gilead Sciences, the developer of Remdesivir, has put in place license agreements with a number of generic drug-making companies for use in developing nations, however no such agreement is in place for distribution across Europe. Fortunately, in the UK the Department of Health believes that it has enough stock of the drug to treat every NHS patient who needs it.

I'll leave it there on political narrative as I'm already starting to sound like a grumpy old man!

Markets

As you may be aware, since the end of March we have witnessed a really strong recovery (see the front page), not to the January 2020 highs but a substantial bounce nonetheless. I have often said that the way in which we manage portfolios at Barratt and Cooke means we tend to outperform as markets fall (i.e. lose considerably less than the index) but the trade-off for this is to potentially sacrifice a little upside in rising markets. However, on this occasion, it is encouraging to report that we have kept pace with this relief rally.

The real question now revolves around whether the uptick in share prices is:

a) Because markets were over sold in the first place (i.e. the market had fallen too far) and have now reached fair value.

Or:

b) Because they have now gone too high and therefore look vulnerable again.

We believe a) to be the case. During catastrophes where panic sets in (whether Covid-19, the banking crisis, dot.com boom, Black Wednesday etc) markets often get oversold which is why it is important to hold one's nerve. I have often heard CWLB say (as indeed his father JALB used to say to him) "You can get out, but you'll never get back in".

Given the speed of the turnaround it is likely that we may not have got back in had we, for example, gone 25% cash as an asset allocation during the downturn. We would have sold at discounted levels but not benefitted from the rise. What we did do is seek to protect capital on the way down by using a small cash allocation and disposing of the most vulnerable stocks, to then make investments into businesses which we believe demonstrated more robust characteristics at that point in time.

Point b) is a bit more complex but has a fairly binary answer. If globally (as most of the underlying earnings are derived from foreign jurisdictions) there is a second wave of coronavirus, then this recovery will be short lived as more businesses fold and millions more jobs will be lost (today we heard awful news on Boeing, Airbus and SSP Group). The impact of wide-scale redundancies for the wider economy is catastrophic. Bills won't be able to be paid, discretionary spend will decrease, the government will have to issue even more debt (greater queues at the benefits counter through no fault of the individual), banks would come under pressure again…and so it goes on.

If, however, and it's a bigger 'if' than in that wonderful poem by Rudyard Kipling (see the end of this letter) the virus passes either by its own accord or because a vaccine is discovered and delivered then, although there will be some troubling times ahead particularly in the regeneration of growth within small business, the FTSE 100 looks good value at 6,170 points. A return to the 2019 peak of 7,500 is unlikely in the short term but there is still plenty of upside.

So what can we do? Firstly we should, as always, remain transparent with investors and keep you informed. I hope you have felt in touch with us; I certainly cannot remember a time where there has been so much correspondence with clients on operations, valuations or portfolio repositioning. Of course we do not know how Covid-19 will unfold and therefore the binary choice poses a quandary. However, we can become too concerned with the level of certain indices and our task is to try and find companies that will outperform the index on a relative basis whilst generating a real return. I have written sections in previous newsletters about focusing on quality rather than value holdings and I'm pleased to say that in the recent equity bounce quality continues to perform well. With the assistance of the analytical team and research from Investment Banks including JP Morgan, Numis, Barclays, Investec and Winterflood, we continue to focus on the individual stocks held in a quest to mitigate the Covid-19 risks.

Government debt – how deep are the pockets and how big is the hole?

In my April newsletter I provided examples of our decision making process with regard to individual equity holdings, which was relatively easy compared to writing about the debt Rishi Sunak and the Treasury have taken on and the wider implications it will have.

We are all aware that both businesses and individuals have benefited, quite rightly, from hand outs. It is easy to turn on the taps but with the bath having reached the overflow pipe now they need to be turned off, yet appear to be jammed.

It is still said to be early in the crisis, so it is impossible to tell how big the final bill will be. It could be as much as £298bn just for this financial year (April 2020 to April 2021) according to the Office for Budget Responsibility (OBR), which keeps tabs on government spending. To put this into context, before the crisis the government was expecting to borrow about £55bn for the year yet it borrowed £48.5bn in April alone and a further £55.2bn in May. This is nine times higher than in May last year and obviously the highest since records began in 1993.

The OBR estimate is based on a "reference scenario" which they published on 14th April 2020. This was an illustration of what could happen if the economy were to be largely shut down for three months and then progressively return to normal over the following three months, with no lasting economic hit. Therefore, witnessing how the crisis is playing out, these estimates could be substantially below what is required, particularly if more local lockdowns are imposed whilst if there is a second spike causing a further countrywide lockdown they will be well out.

Furlough schemes, or the equivalent including:

- £10,000 grants to small business
- payments to the self-employed up to salaries of £50,000
- the Job Retention Scheme

and other packages which have been introduced to support public services (health, transport, schools etc), businesses (small and large) and individuals will cost approximately £130bn.

Over and above this, it is estimated that the deficit will increase by a further £113bn to £243bn due to lower tax receipts as the unemployed or furloughed workers will pay less income tax. Furthermore, businesses will pay less corporation tax due to profits falling and less VAT will be paid as demand for goods and services declines. It is hard to quantify how government deficits will be affected in future years since this clearly depends upon the extent to which there is permanent economic damage.

The government has started to raise money by issuing debt. A lot of this will be bought by the Bank of England (our old friend Quantitative Easing), which should make raising the funds easier. The OBR's analysis of a 3-month economic lockdown estimated that government debt would increase to around 96% of GDP by the end of 2020/21 versus last year's 80%. A longer lockdown would likely result in debt exceeding GDP. The Resolution Foundation estimated that at the end of 2020/21 the debt-to-GDP ratio could actually be 130% if lockdown were to extend for six-months although the one positive is that further monetary easing from The Bank of England to lower its main interest rate to 0.1% in effect makes this debt marginally cheaper for the Treasury.

In order to unwind this burden on the Treasury it is likely that, at some stage, taxes will have to rise. It remains to be seen whether this is in the form of hikes in income tax, corporation tax (although if Biden is successful in the US Presidential Election it is anticipated these rates will increase from 21% to 28% and the UK could follow suit), VAT, capital gains tax, inheritance tax or indeed any other tax. There has been some comment on nil rate bands for IHT and I still believe that the differential between income tax and CGT for higher rate taxpayers is unsustainable.

Of course raising taxes creates a vicious circle since in order for the economy to really return to stellar health it requires individuals and businesses to spend, yet the drain from taxation means there is less liquidity for this. As such Sunak has the improbable task of clawing back the deficit whilst trying to stimulate an economy in which we expect the majority of individuals and businesses will be adopting a cautious approach, having been stung by the pandemic from a cash flow perspective.

P/E Ratios, Dividend Cover and Fixed Interest

Price to earnings ratios have always been integral in our investment analysis, often with the PEG ratio which also takes into account earnings growth. However, in many circumstances such ratios make little sense currently as historic earnings are unlikely to be replicated and forecasting current year earnings is impossible (most companies have withdrawn guidance given the uncertain backdrop). This is not to say that we are 'flying blind' because it is still possible to take a thematic approach and investments in technology, consumer brands and healthcare (our favoured sectors) typically display more reliable characteristics and subsequently their valuation metrics are more transparent than many stocks in the 'troubled sectors'.

I'm unsure, for example, how you could value an airline at the moment. Fleets are grounded, jobs have disappeared and the pipeline of future aircraft stock is drying up. This is before even considering the affordability of or demand for tickets whilst there is also the environmental pressure on emissions. This is why we continue to ensure that we invest rather than speculate. Of course, one day, hindsight may tell us that we could have made a quick turn, but at this point in time we believe the risk in many such stocks look disproportionate to the potential returns.

It has been widely reported that dividends have and will continue to be cut and we anticipate this to be the case. Indeed, we have seen Royal Dutch Shell prudently cut their dividend by 66% yet BP has thus far maintained their dividend policy. But with dividend cover having always been considered a core metric in our analysis, portfolio income streams have held up far better than the wider market. *Please note our valuations now account for any declared dividend cuts so they give you a more realistic idea of the income you can expect to receive if you have this paid out.*

Within Fixed Interest, we are reviewing our shorter dated index-linked gilt exposure which served clients very well in February and March, providing significant buoyancy and liquidity for those who required it. That said, as with the whole fixed interest market (both inflation linked and conventional) returns, whether capital or income, look tight. For medium, moderate and low risk clients it is important to have some dated stock for times like the Covid-19 slump but in certain cases we are seeking to recycle capital into corporate bond funds within the overall fixed interest exposure in order to increase the yield a little.

TB Opie Street Funds Update (by Sam Matthews and Edward Sidgwick)

As highlighted in this newsletter, stock markets have recovered significant lost ground in recent weeks, and pleasingly the Funds have participated in this rally. During lockdown we have embraced technology and have continued to regularly engage with fund managers, including via conference and video calls. This dialogue with the managers is a key aspect of our ongoing due diligence.

Standout performers in recent weeks include investments in:

- Brown Advisory Global Leaders (held in both Funds) which is invested in a portfolio of very high quality global blue chips, including Microsoft and Visa.
- Scottish Mortgage (held in the Growth Fund) which is predominantly exposed to leading global technology (and technology related) companies, including Amazon and Tesla.
- 3i Infrastructure (held in both Funds) which is invested in a portfolio of unlisted companies providing key infrastructure services, for which demand is typically relatively resilient, with obvious attractions currently.

We now manage approximately £55m within the TB Opie Street Funds and are grateful for clients' ongoing support.

Please consult the fund factsheets (available on our website) for further information on recent alterations made within the funds and our current positioning.

Conclusion

Despite a 16% devaluation in the FTSE100 since January 2020 it is remarkable that client portfolios stand at similar, or indeed marginally higher, values to where they were when we had only just heard the word "coronavirus". Whilst we are 'far from out of the woods' we will continue to strive to protect and grow capital whilst giving consideration to generating sensible levels of income for those that require it.

I started this newsletter with Dame Vera Lynn, one of the few who brought some solace during the second World War, and I shall finish with the remarkable feat of Captain Tom (now Colonel Sir Thomas Moore); not only with his incredible £32m fund raising feat but in inspiring a nation and giving us something to cheer. These centurions are representative of their generation demonstrating 'backbone', spirit and will and it is these traits which will help us to beat coronavirus. We can all, particularly the younger generations, learn from their determination to 'crack on' in the face of adversity.

IF (by Rudyard Kipling)

If you can keep your head when all about you
Are losing theirs and blaming it on you,
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;
If you can wait and not be tired by waiting,
Or being lied about, don't deal in lies,
Or being hated, don't give way to hating,
And yet don't look too good, nor talk too wise:

If you can dream—and not make dreams your master;
If you can think—and not make thoughts your aim;
If you can meet with Triumph and Disaster
And treat those two impostors just the same;
If you can bear to hear the truth you've spoken
Twisted by knaves to make a trap for fools,
Or watch the things you gave your life to, broken,
And stoop and build 'em up with worn-out tools:

If you can make one heap of all your winnings
And risk it on one turn of pitch-and-toss,
And lose, and start again at your beginnings
And never breathe a word about your loss;
If you can force your heart and nerve and sinew
To serve your turn long after they are gone,
And so hold on when there is nothing in you
Except the Will which says to them: 'Hold on!'

If you can talk with crowds and keep your virtue,
Or walk with Kings—nor lose the common touch,
If neither foes nor loving friends can hurt you,
If all men count with you, but none too much;
If you can fill the unforgiving minute
With sixty seconds' worth of distance run,
Yours is the Earth and everything that's in it,
And—which is more—you'll be a Man, my son!

"If" we can overcome Covid-19 in a reasonable period of time equities look 'dirt cheap'. However, despite having taught chemistry at Mio High School, Kabartonjo (Kenya) some years ago, I cannot claim to be the scientist who knows how long this dreaded disease will take to clear.

At the start of this newsletter I wasn't too bullish about how we are being led, but I am hugely optimistic that "we'll meet again" and soon. I look forward to seeing my fellow Barratt and Cooke employees as well as our clients.

Enjoy the pub!

WJB
1/07/2020