The most useless **results season ever? ... part 2**

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David Moss, co-head Global Equities, argues the case for looking beyond the latest set of results and focusing on long-term prospects.

Given its focus on a world before COVID-19 really took hold, we commented some months back that the Q1 results season would provide very little in the way of new or pertinent information. We further surmised that any outlook statements would be useless given no-one really had a clue what the future held.

Economic activity (and its collapse) was the one exception, meaning that we and the wider market could be confident that company earnings would be much, much lower. The actual impact of record GDP falls on earnings will soon become clear as the Q2 results season progresses – the expectations are that in many cases, they could be down over 50%.

So, as we suggested three months ago for Q1, Q2 results will also add little useful information bar confirming that COVID-19 has caused the weakest economic backdrop ever seen. Surely, therefore, the outlook statements that we're reading must have some value insomuch as they provide insight into how companies see their future... we're not so sure.

It is true that there has been progress in many areas:

- New cases of COVID-19 have reduced dramatically across Europe and most of the world
- Deaths are far lower than the dark days of April and May
- There is a greater understanding of the disease and how to treat it
- Some existing drugs are beneficial to patients
- The fiscal and monetary response has helped to reduce the impact on economies and businesses

Themes for thought

Progress means that many economies are re-opening and returning to some 'normality' – prompting us to ask, 'what does this new normal look like?' We mentioned in our last note some of the areas that it'll be interesting to watch play out:

- Climate change – does cheaper oil influence the debate?
- What happens to global supply chains?
- How will consumption habits change?
- How quickly do we return to using mass transportation or attend mass participation events?
- Working from home – does it continue, or do we revert to previous norms?

Continued

- Furlough – what happens after?
- Can the eurozone move forward together?
- How do we pay back the debt?

The end of furlough – businesses will remain wary

While we accept that there has been some definitive progress, not least in the eurozone where unity appears far higher than we anticipated with the EU Recovery Fund, we contend that a number of the above questions are yet to be answered. It'll take time for real clarity to emerge, especially for the stand-out economic issue – 'what happens after furlough?' In most countries, some version of a furlough scheme has been launched as governments make up some or all of the shortfall in wages caused by the pandemic. These schemes have been an undoubted success in helping maintain consumption and limit job cuts. There still have been layoffs and while jobs are returning, notably in the US, unemployment numbers are high and we are fearful that when the furlough schemes become less generous and eventually end, job losses will rise further. Only then will we see the real economic impact of the virus. Until clarity around this emerges, it's likely that businesses will remain wary of hiring, expanding or investing.

These factors combine, in our view, to make this another 'useless results season'. We will see the impact of the virus on Q2 results – numbers the market are already ignoring – and we will probably see some positive commentary on how business has recovered during the latter part of the period and into July. But is this simply pent-up demand as individuals are desperate to go out and go shopping, supported by generous support schemes, or is it real demand that can be sustained and built on? We don't know yet, and suspect that we will only know for sure as we move into 2021 and find out more about the 'new normal'.

Stock takeaways

So, is there anything we can learn? The answer's a resounding yes as we're already beginning to see winners emerge. In some cases, the winners are businesses that were already performing well but have seen the pandemic accelerate the trend. Delivery Hero ("DHER") is an obvious example. Restaurants and consumers were already recognising the benefits of food delivery apps relative to making a phone call. The need to 'stay at home' has accelerated usage and DHER is continuing to add more services to improve its offering.

Ryanair to take-off?

At the other end of the scale are industries hit hardest by the pandemic yet even here we are seeing winners emerge – those with strong moats show their ability survive and prosper. Ryanair went into the crisis with a net cash balance sheet, one of the youngest fleets in the industry and the lowest operating costs of any airline. Despite a near cessation of flights they have not been a recipient of home state largesse like Lufthansa or Air France, and have watched new and old competitors slash their fleets in a desperate attempt to survive. Will we all fly less as we return to this new normality? Probably, but there will also be a lot fewer operators and most survivors will be much smaller. We believe that Ryanair will be in a strong position to take significant market share and offer low cost flights in one of the newest, lowest carbon emitting fleets in the world.

Long-term winners will emerge

The COVID crisis has accelerated trends like the demise of traditional bricks & mortar retail. It's also introduced new ones such as what working from home will mean for mass transit businesses. In such an environment, we'd argue that it makes more sense than ever to look beyond short-term earnings and focus on identifying long-term winners that can thrive in any environment. For us, this means sticking to the investment philosophy that we have held for years before the virus hit – favouring businesses with a wide economic moat and sustainable model, and doing so by focusing on three key tenants: Quality, Management and Valuation.