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Delaying the inevitable?

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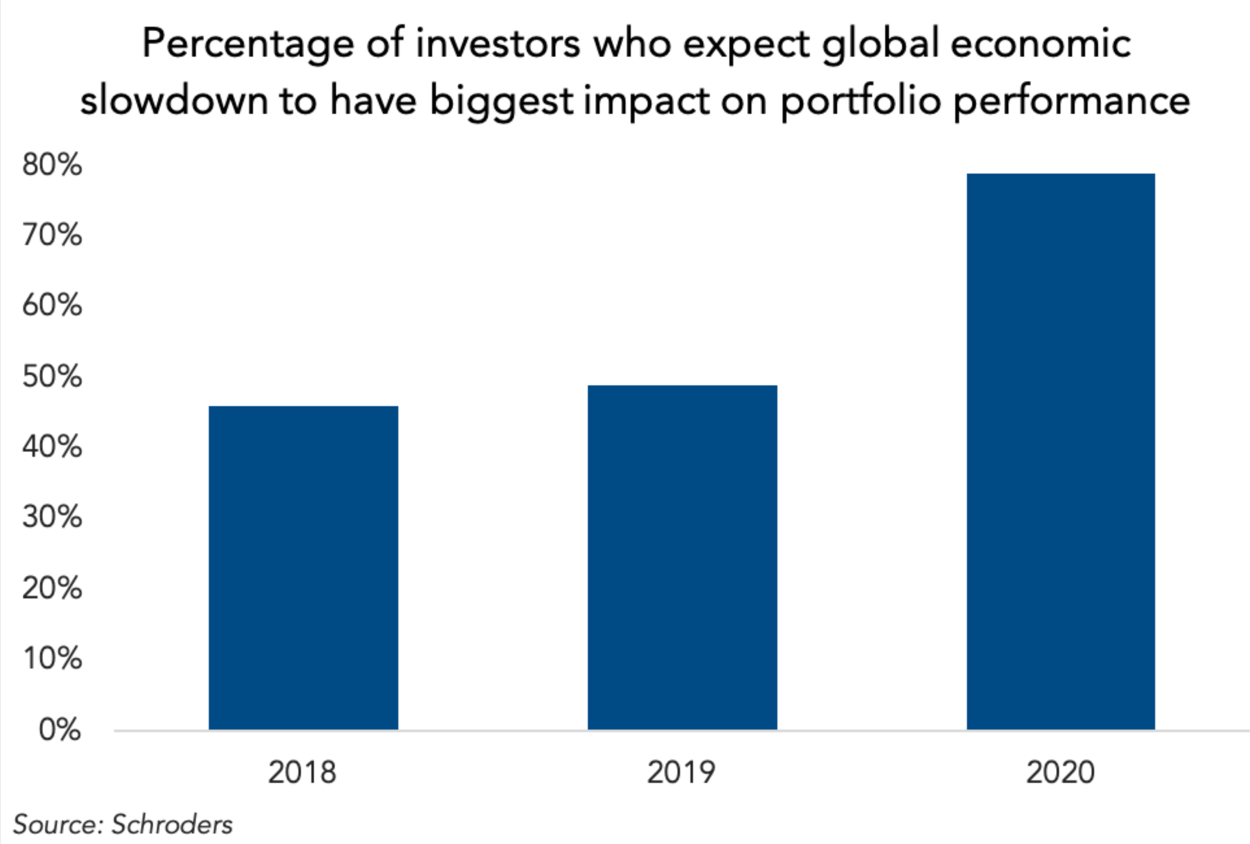

Many businesses may be faring better than expected but investors are worried that economic reality will catch up in the end.

Listening to market sentiment at our *New York Forum virtual experience 2020* last week, it was clear things could be both an awful lot better and an awful lot worse.

Some feared a huge level of impairment in the aftermath of covid-19's first-wave peak in March and April, but panellists said there had been more stability than anyone expected. However, it was also pointed out that a lesson from previous crises is that serious impairment often comes a year or two after the crisis itself, and that there was better visibility after the global financial crisis than there is now.

As our chart above shows, the main worry for investors today is the global economy – with many fearing the worst economic effects from covid-19 have not yet become apparent. This is the reason why – despite there having been dislocation opportunities in the immediate aftermath of the viral outbreak – many distressed investors are still largely unoccupied. Government support has delayed issues for many businesses – but certainly not eradicated them.

Nonetheless, given the extent to which governments have stepped up with financial support, one participant said they now thought the default rate over the next 12 months would climb to between 7 and 9 percent – having initially estimated 12-14 percent. It was acknowledged that, in terms of when markets might return to normal, much will depend on how quickly a vaccine can be widely distributed to global populations.

The discussion turned to the contrasting fortunes of different sectors. Although some types of retail and entertainment are expected to face anywhere between two and five years of pressure, some types of technology and quick-serve food (rather than sit-down eating) are doing better than they were pre-covid. In the fitness sector, said one panellist, “some great businesses backed by credit are really struggling”, while “dental and medical businesses were hit hard initially but could be back to pre-covid levels in six to nine months”.