

*"There are decades where nothing happens;
and there are weeks where decades happen."*

- Vladimir Lenin

The devastating blow of the pandemic lockdown continues to unfold on the global economy, causing a near-stop to travel, migration, and gatherings. For those of us who continue to work while our physical workplaces are closed, to say we're "working from home" is not quite accurate: we are confined to our homes due to a crisis, trying to work. For many others, work has screeched to a halt. In Canada, more than 7.1 million unique applicants have filed for the Canada Emergency Response Benefit (CERB) since April 6, suggesting the pandemic may have wiped out all job gains made in the Canadian economy since October 1986. In the US, workers have filed more than 26 million claims since the start of coronavirus shutdowns.

Will this episode turn into a repeat of the Great Depression, with years of shrinking GDP and sky-high unemployment? We doubt it, for a couple of reasons. First, the economy was in decent shape going into the crisis; there were no red flags of overextended leverage. Bank balance sheets were solid, which is allowing financial institutions to play a role by granting forbearance and extensions on loans. The crisis of 2020 is not a case of a bubble bursting, but of a health crisis that became a financial crisis.

Second, an unprecedented amount of government intervention has been pumped into the economy. Unlike in 2008-09 where fears of moral hazard provoked political debate over bailouts, today there is broad bipartisan agreement that businesses and individuals thrust into distress by state-imposed lockdowns, should be provided with a financial helping hand. In addition to cutting rates to near zero, the US Federal Reserve is lending directly to businesses, states and cities, and expanding corporate credit backstops; last month, the US federal government passed a \$2.2 trillion aid package. In Canada the coronavirus emergency relief package provided for \$82 billion of spending, including tax deferrals, frozen interest on student loans, and emergency benefits for workers. Across the developed world, fiscal and monetary policies are now on wartime footing, showing governments'

willingness to act "forcefully, proactively and aggressively" (in Fed chair Jerome Powell's words) to support the economy.

Even after the physical threat has passed, the lockdowns will have long-term effects on business practices. For example, the digitization of society has been pulled forward—"late adopters" who may not have wanted to shop or bank online are now forced to learn; workplaces have adopted work-from-home software like video conferencing. Once learned, these skills and habits will be retained. Corporate operations too, will be increasingly digitized. Given the vulnerabilities the pandemic uncovered in some supply chains, there may be more willingness to adopt sophisticated software and data analytics to build more flexibility and visibility into production systems.

This is not to understate the economic damage and brutal human cost of the pandemic. The tearing-down of old ways of doing things may be a form of Schumpeterian "creative destruction", spurring innovation and technical advances, but it is still painful for those enduring it. The pandemic is a stress test on everything, from balance sheets, to business relationships, to families.

Public companies, being larger and more mature than private businesses, have on average more levers to pull—from cost-cutting and shuttering facilities, to drawing down available lines of credit. However long it takes to come out of the pandemic crisis, the companies that are able to bridge this tough period may benefit from a winnowing of competitors.

So far, management teams of companies owned in Laurus portfolios have responded by freezing hiring, furloughing employees, paring back capex plans, and withdrawing forward earnings guidance. The lack of visibility makes planning a struggle, which is why having prudent amounts of leverage and a robust, defensible business model become even more critical during a crisis. As always, at Laurus we focus not on guessing what will happen next in the macro economy, but on assessing how management teams of individual public companies are executing, during this unprecedented stress test.