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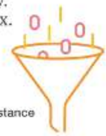

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# Prospects in an uncertain pandemic post-Brexit world

Advocate Raymond Ashton says it may take years to recover the level of dividends with companies likely to be cautious given general uncertainty. (29200026)

**Advocate Raymond Ashton** offers his insights into how dividends and profits will be affected by the double whammy of Covid and Brexit on the finance sector

DIVIDENDS are a key component to capital markets.

As such they are more important than reported profits for the simple reason that accounting profits can be manipulated by judicious use of accounting principles.

Dividends, unlike profits, have to be paid in cash.

Indeed, having been involved in public companies, the biggest problem with the annual dividend is to actually find the cash flow to support it.

The other problem for a public company is that the stock market usually reacts negatively to a decline in dividend per share.

Conversely, if a dividend increase is announced the stock market usually reacts positively on the basis that once a company has decided a dividend per share it is reluctant to reduce it.

By similar reasoning, companies often defend takeovers or try to get more for their shareholders by increasing forecasted dividends per share.

**'What is important for economic policy whether in Guernsey or elsewhere is to focus on stimulating the business sector in order that government debt can be repaid via taxes'**

It follows during the pandemic that dividends per share have been under pressure.

UK dividends were badly affected, according to analysis by the Link Group, an investment services business, and reported on by the FT on 25 January 2021 – with UK dividends falling by 44% as companies sought to conserve cash as a hedge against business disruption.

Given a resumption of the pandemic, it is unlikely to recover this year by the forecasted 8% estimate.

In 2020 UK dividends fell to £1.9bn, their lowest level since 2011, the reason being the market's heavy concentration on a few large companies across the mining, financial and energy sectors.

The problem is obvious for investors dependent on dividends, such as individual pensioners and pension funds.

In view of climate change and movement from fossil fuels, dividends in the energy and oil sector are expected to be the slowest to return after cuts, the report quotes, of over £11bn.

It may take years to recover the level of dividends, with companies likely to be cautious given general uncertainty.

The biggest fall in dividends was the financial sector – some 40% of the total – discouraged by the regulator, particularly in the case of the banks.

This is likely to be compounded in future by lower trading revenues and an increase in corporation tax and possibly personal taxes.

The implications are a decline in profits available for distribution (and dividends) and a very depressed stock market.

The effects of Brexit will begin to be felt, which is likely to depress the market – and also in the high street as regards rents and in wages as a result of unemployment.

Locally, the prospects for trading profits are far from good given the stop-go nature of trading.

Most quoted local companies are reliant on investment income from overseas companies, which is likely to be adversely affected by the pandemic and hostile governments eager to raise more tax.

Are there any financial sectors where there is a degree of optimism?

What some can see is a 'hardening' of insurance rates, usually good for insurance companies, so investors might take another look at this sector.

Finally, it is not all doom and gloom.

Banks still retain the monopoly over the cheque clearing process, and given the cutback in dividends in 2020 it can be expected profits might have increased substantially in this bank reporting season which will be upon us very shortly.

What is important for economic policy whether in Guernsey or elsewhere is to focus on stimulating the business sector in order that government debt can be repaid via taxes.

Realistic targets should be set for this in the long and short term.

To avoid depressions and concomitant high unemployment, it will be necessary to be more patient, bearing in mind dividends and profits are likely to be depressed for a number of years.

What is needed to address the deficit is government policy should be aimed at exploiting technology through growth in productivity and full employment to generate tax revenues.

Finally, and something which has only just begun to emerge in the literature, the 'bogey' of inflation.

This may present a further problem in the short to medium term given the effects of quantitative easing by the central banks.