Synairgen PLC

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Why the coronavirus crisis might not be as bad as 2008; and why it might be worse

In percentage terms, the decline in market valuations on both sides of the Atlantic has been either nearly as bad or worse than it was during the financial crisis of 2008, according to analysis published by Liberum this week.

Thus, in the first two months since the coronavirus outbreak US equities, have dropped by nearly 30%, as against the 40% drop endured in 2008, while European stocks have dropped by 30%, roughly on a par where they were two months into the global financial crisis.

And if the patterns followed in 2008 are anything to go by, things may well get worse before they get better. After initial precipitous drops in 2008, US and European markets then recovered somewhat as the panic subsided, only then to decline at a gentler rate but no less significantly, to levels slightly lower than those to which the initial selling had taken them.

But are the two crises comparable in that regard?

The epic scale of the financial shock certainly is comparable. This is without doubt the most serious financial crisis the world has seen since 2008, and may yet surpass it for severity.

The open question though, is how long it will last?

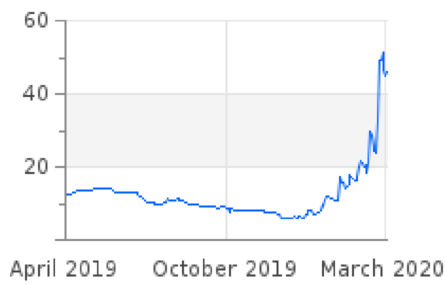
Back in 2008, there was a clear understanding that the financial system itself had been fatally compromised. And that in turn lead to an ongoing sense of uncertainty that lasted, in some sectors, for years.

This time round, there's no such underlying problem: the initial causes of the crisis lie outside of the financial system. In broad terms the mechanisms that allow national and transnational economies to function are still in place.

And that advantage has allowed governments a freedom to manoeuvre that they didn't have in 2008, when the domino effect of the collapsing banks threatened to undermine the very efficacy of credit itself.

Price:	46
Market Cap:	£50.34 m

1 Year Share Price Graph



Share Information

Code:		SNG
Listing:		AIM
52 week	**High**	**Low**
	69	**5.5**
Sector:		**Pharma & Biotech**
Website:		**www.synairgen.com**

Company Synopsis:
Synairgen is a drug discovery and development company founded by University of Southampton Professors Stephen Holgate, Donna Davies and Ratko Djukanovic. The business, focused primarily on severe asthma and COPD, uses its differentiating human biology BioBank platform and world-renowned international academic Key Opinion Leader network to discover and develop novel therapies for respiratory disease. .

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UK Prime Minister Boris Johnson is talking about a 12 week go-slow period, and although that may prove overly-optimistic, it does represent a direct contrast to the ripple-effects of 2008, which were felt for years, and in ways which are only now being understood.

On the other hand, the effects of the crisis will undoubtedly run deeper. Back in 2008 we witnessed a horrific inversion of the famous trickle-down effect: that when banks collapsed the corresponding destruction of wealth seeped down into the wider economy, and growth turned to recession.

This time round though, the effects of the reduction in economic activity have been immediate and have run right through society, from the very bottom - people like music teachers, contract caterers and restaurateurs - to the hedge fund managers and corporate warriors at the very top. In the middle, housing sales are stalling and productivity will necessarily drop off a cliff.

This shock is sharper, and more immediate, and this is borne out in the pattern of the relative stock market falls. In the coronavirus crisis the falls were more precipitous and steeper than they were in 2008. It remains to be seen what the after-effects will be, how many dead cats will bounce, and whether small changes to the oil price, like the one we've witnessed towards the end of this week will herald anything more than false dawns.

But there are bright spots.

Certain health companies, like Synairgen PLC (LON:SNG), are doing very well. Its shares have risen nearly eightfold since the start of the year. No surprise to learn that its speciality is health and that it is currently trialling a treatment for the coronavirus.

More generally though, there will be winners elsewhere too. If Mr Putin and the ruling Saudi elite decide to reach some sort of accommodation the oil price could jump markedly, and all those oil majors like BP (LON:BP.) and Royal Dutch Shell (LON:RDSA) that have been oversold even in comparison to the general crash will bounce.

And then there are the gold producers. Gold dropped significantly as investors who were sitting on stock market losses sought to balance portfolios by booking gains in gold. But that dynamic is slowing now, the gold price is back on the rise, and gold equities are likely to bounce too.

One company, Trans-Siberian Gold PLC (LON:TSG), said as much this week, in an operational update.

"Current events have resulted in material changes to commodity prices and foreign exchange rates, which are expected to impact positively on the overall profitability of the group," said Trans-Siberian.

"The company's dollar-denominated revenue from gold sales remains strong in a supportive gold price environment. The recent oil price decline is expected to considerably reduce the group's energy costs, and the connected devaluation of the Russian rouble is equally anticipated to contribute to overall cost improvement, as the majority of the group's operational costs are rouble-denominated."

The read across to other producing gold companies like Pan African Resources (LON:PAF) and Caledonia Mining (LON:CMCL) is clear enough. Profits could be up, not down this year. And that's a nice thing to be able to say in a market like this.

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