

## LIQUIDITY VS. UNCERTAINTY, THE BATTLE BEGINS

*... it appears that liquidity may have at last met a potent adversary: uncertainty...*

In recent columns in this space we have written about towering liquidity that has for some time driven capital markets activity and strong valuations, exemplified by the growing hedge fund sector, increasing size of private equity and buyout funds, and new financing sources that seem never to cease emerging (such as the SPACs described in last month's article). It now appears, however, judging from the volatile behavior of financial markets recently, (as well as the accumulation of anecdotal examples supporting our perspective), that the might of liquidity may have at last met a potent adversary: the nagging pervasiveness of uncertainty.

Whether some business executives are asked to comment about the direction of their industry – and for this discussion we limit ourselves to the sectors we track closely, noting the rapid evolution of technology, consumer habits, and advertising models in media and telecommunications – or whether some financial markets observers are asked about metrics and trends in the rapidly evolving global landscape; the responses have lately seemed to divulge a measure of timidity, hedging, and lack of certitude. Here are just a few examples from the recent press:

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*"The technology seems to change every Monday," said Bob Chapek, the president of Buena Vista Home Entertainment, a division of Disney, speaking on a panel of studio chiefs. "On the one hand, we're playing in the old-fashioned packaged goods business, and at the same time, we have to deal with new technologies."*

*"It's a market with no clear conviction at all except for that it's afraid," said William E. Rhodes, chief investment strategist with Rhodes Analytics. "There are economic fears and uncertainties. That alone pulls the market down because on a very fundamental basis you're not sure where to price the stock. And if you're the buyer, you don't want to pay what's asked."*

*Fed Governor Susan Bies, speaking in Washington recently about the direction of interest rates: "If you asked me today, 'Sue, where are you going to stop?' I couldn't tell you, because we're in the range that we need to be, I think."*

Reflecting such doubts and imprecision, global market indices have in the past few weeks declined, in some cases sharply (a slight recovery in the last several trading sessions notwithstanding). Within the narrower scope of the media industry, the decline had already been several months in the making, (please refer to the Near Earth media index and its component stocks). On one level, these patterns underscore a volatility born from a lack of conviction, as noted by Mr. Rhodes above. And at a more elementary level still, these patterns show that, with sellers outnumbering buyers to cause prices to fall, some of the fabled liquidity has exited...

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And has gone where? Cash taken off the table needs to eventually find a new place to settle, and it will therefore be interesting to watch, in the coming months, the battle of the titans unfold: in the one corner, historically high liquidity and, in the other, perceived risks almost to match. Most of all, it will be of great importance to issuers and dealmakers alike to note the reaction (if any) of private funding sources to public market trends (should the described trends continue). In recent history at least, private equity funds and finance companies have followed the lead of the public markets. Will past behavior repeat itself, or will these capital providers focus on long term prospects and seek out buying opportunities in the choppiness? In either case, it may be assumed that business plans that provide some form of downside protection for investors will be the most attractive financing targets in this environment.

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