Santander Asset Management

State of play

01 April 2020

In the midst of this unprecedented global event, our Investment Specialist, Simon Durling, provides you with the latest COVID-19 developments, alongside our market and investment insights.

COVID-19: An update

We are just over a week into the UK's "lockdown" and the impact on our day-to-day lives has been profound, testing both individuals and governments alike.

So what is the latest on the spread of COVID-19 and the global response?

China

China, where the outbreak first began, has returned to work as the majority of the restrictions have now been removed. Their next steps will be scrutinised as other countries try to navigate what actions to take but more importantly, at what stage to lift or change any measures to avoid a "bounce back" of the virus in a second, potentially more deadly wave.

South Korea

South Korea appears to have taken less stringent measures on the movement of its people than most, but has backed this up with more testing and tracing per head of population than any other. The number of infections have flattened and reduced dramatically.

Italy

In Europe, the picture is very gloomy. Italy is expected to extend restrictions beyond the initial "lockdown" period with its health service under enormous pressure and the death rate mounting. The infection rate seems to have slowed in recent days and is now declining as the stay at home environment starts to "flatten" the infection rate increase curve.

Spain

Spain is catching up with Italy, both with the infection rate, and sadly the amount of people who have died from contracting the virus. Again, stricter restrictions have now been implemented as senior government ministers are stating the next two weeks are critical for the country's attempts to beat the virus.

Germany

One particular talking point has been Germany's percentage of deaths to infections which remains very low in comparison to other countries. One explanation given is that many skiers who returned from the Italian Alps are much younger and fitter and are therefore recovering from the virus quickly, with many not even showing symptoms. This is now starting to change as outbreaks in elderly care homes starts to emerge. Germany has plans to test their population en masse to assess those individuals who have had the virus and are now potentially immune so they can issue them with a certificate enabling them to return to work.

UK

In the UK, the massive efforts to equip and prepare the NHS for the peak of the epidemic are in full flow. The Nightingale Hospital, which has been built in just ten days at the The ExCel Centre in East London, is about to open for the first time with 400 additional beds and when it is finished it will offer capacity for 4,000 additional beds. Other similar venues like the NEC Birmingham and the Principality Stadium in Cardiff are being readied to provide further bed capacity in the coming weeks.

Amongst many of the concerns weighing on the minds of government officials in the UK, is ensuring enough PPE (personal protective equipment) availability across the NHS and its front line staff. In addition, the testing target of 25,000 per day seems some way off, as measures to increase testing have been put in place, but as yet have not had the desired effect. Most accept that the current restrictions and "lockdown" will have to be extended beyond the initial three week period and perhaps well into the summer.

Science and medical professionals are working round the clock to develop an accurate antibody test (like in Germany) alongside the start of vaccine testing. Despite this, a vaccine is not expected until late autumn at the earliest. Other medical companies are co-operating in trying to develop medicines to treat those who are infected.

The current data as at 7.45am on 1st April[1] is 861,000 confirmed cases, 178,000 recoveries and 42,400 deaths. Italy remains the worst-affected nation worldwide in terms of deaths, with 12,428 now reported, followed by Spain who have reported 9,053 deaths. The US numbers have spiked considerably in the last few days, with 187,625 cases and more than 4,000 deaths.

Economic impacts and response measures

New economic data has started to flow through following the massive fiscal and monetary steps taken to cushion the blow of essentially putting vast swathes of the global economy into hibernation.

In the US last week, record numbers submitted a claim for unemployment relief with 3.3 million people claiming in just 7 days. The previous record during the financial crisis was 658,000 people. The data is expected to get worse over the next few weeks as the various economic measurements indicating the health of the economies around the world paints a very gloomy picture.

In response, the Federal Reserve (Fed) has started to take up the role of central bank to the world. In its latest measure to combat the economic fallout from the virus, the Fed said on Tuesday it was establishing a temporary repurchase agreement facility to allow foreign central banks to swap any Treasury securities they hold for cash. That's yet another step beyond the actions it took in the 2008 financial crisis. This is designed to soften the rise in the value of the dollar which hurts many economies, especially those in the Emerging Markets who are particularly exposed to changes in the value of the dollar.

In the UK, the Chancellor stepped in with a long-awaited package for the near 5 million self-employed by offering to cover 80% of their average monthly earnings over the last 3 tax years. Despite this, record numbers have applied to claim universal credit and the civil service is having to redirect its resources to focus processing these claims.

Most experts and commentators accept that a sharp recession is likely and are hoping that the extraordinary measures taken will avoid a potentially devastating depression.

Market conditions

Since last week's blog, stock markets around the world have made something of a recovery as investors digested the various interventions aimed at alleviating some of the economic impact. This has shown in most asset classes but there remains different pressures influencing potential changes in value.

Concerns remain about the sustainability of company dividends around the world as we see announcements being made either cancelling or suspending dividend payments.

Expectations remain that people will lose their jobs and companies will go out of business, despite these interventions. This is putting enormous pressure on the debt markets as new assessments are frantically being made where possible to assess the extent of the likely rise in default rates on these vital loans that keep the economic engines of the world "oiled".

Volatility remains in all asset classes with the outlook uncertain. Most commentators are expecting more falls in stock market prices before a more sustainable recovery endures. Clearly trying to predict these outcomes is impossible and most investors are just trying to ride out the storm in the hope that this market shock will eventually turn into a sharp demand led recovery once the world's economies gradually return to work.

Managing client portfolios

John Mullins, Portfolio Manager at Santander Asset Management UK, joined me on our bi-weekly podcast on Tuesday, providing valuable insight for investment customers about the market environment and the expectations for the future.

In the Podcast John explained what measures had been taken to fight the pandemic, the potential financial consequences of the interventions and what he and the rest of our fund management team are considering and evaluating to help navigate through this crisis.

It remains the case that diversifying our customer's portfolios and targeting investment returns over the longer-term help to weather market shocks, like the current crisis. Designing these portfolios in line with each of our customers risk profiles helps us to ensure the right mixture of assets is held on their behalf and matches their own individual long-term objectives.

John explained yesterday that they remain concerned about the economic data that will follow in the next few weeks, but are confident that they can take decisions to help mitigate some of the volatility and help achieve our customers long-term goals. This is without doubt a difficult challenge, but they remain committed to trying to deliver the best outcome for our customers.

[1] BBC News - 01 April 2020

Learn more

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Important Information