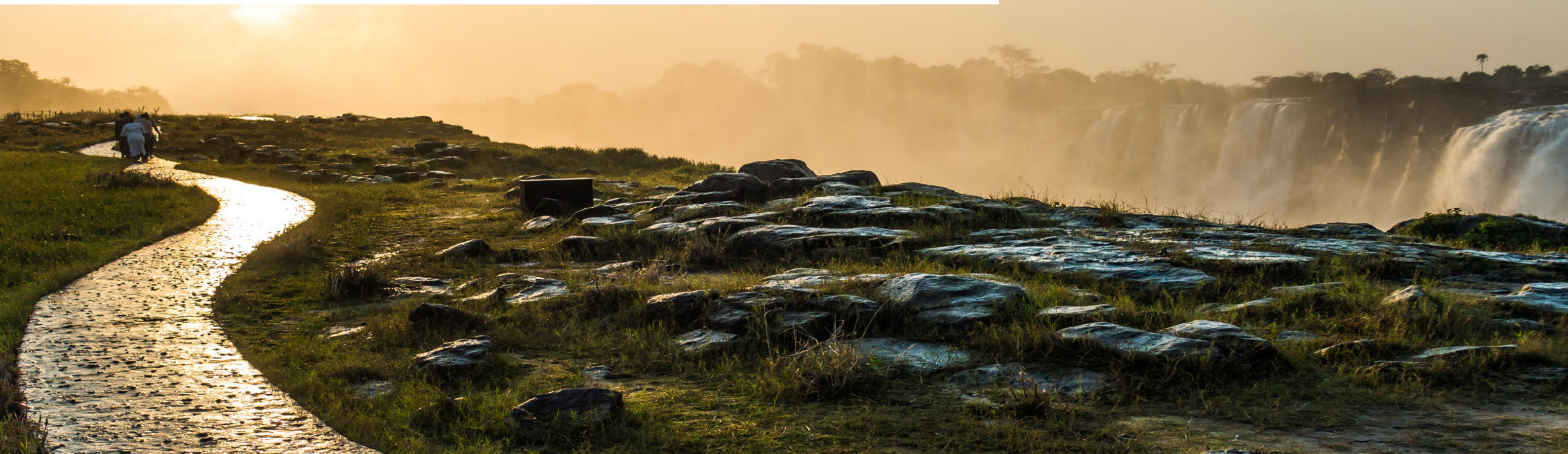
State of play



16 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

The first tentative steps down the path to normality have been taken by Spain, the first European country to ease lockdown restrictions. Although the rules were only lifted for construction, manufacturing and some service sector workers under strict safety guidelines, it marks an important move since the state of emergency asking people to stay at home was declared on 14 March. The government plans to distribute millions of face masks on public transport to the returning workers. France, by contrast, has extended the current lockdown until 11 May.

Italy, to date the hardest hit European country, lifted restrictions on a narrow range of companies on 14 April, although there were regional differences. For example, Lombardy, the worst hit region, remains locked down. In a reminder of how difficult the route to normality is likely to be, the Deputy Health Minister admitted in an unguarded interview that all bars, restaurants, museums, cinemas and theatres are likely to remain closed until a successful vaccine can be found. At present, the experts believe that this would be late autumn at the earliest, despite human testing having already begun.

It is understandable why these countries are busy evaluating how to restart their economies safely. Tourism and the vitally important services sector (including bars and restaurants) make up two thirds of both the Italian and Spanish economies.[1] The debate on how long to keep restrictions in place to protect the vulnerable from this awful virus versus the economic impacts

on people's lives and wellbeing is in full swing. Some experts argue that a disproportionate amount of lives could be lost as a knock on effect due to the health impacts of a protracted recession, particularly on the poorest and most vulnerable when compared to those lives saved by a prolonged lockdown.

In the UK, Foreign Secretary Dominic Raab, standing in for the Prime Minster, announced a further 3 week extension to the current lockdown (until 7 May) as the UK is not expected to hit its peak for another 7 days. Boris Johnson was discharged from St. Thomas's Hospital in London to recover at Chequers, his country retreat. He heaped praise on the NHS for saving his life, singling out two nurses in particular that cared for him whilst in hospital. Government sources said that he will rest and recuperate for a minimum of a week, but medical experts suggest that this could be significantly longer.

Different departments within government are motivated to end lockdown sooner than others due to the social, economic and health cost impact. However, the proportion of the public who are abiding by, and support, the restrictions is said to have taken the government and their scientific advisers by surprise. Polling information over the weekend has shown that the UK has gone from being a divided nation throughout the last four years of Brexit, to one united in fear and support of defeating COVID-19, regardless of political persuasion. Pressure remains on the government response, with many claiming the lockdown was too late in being implemented and decrying the lack of personal protective equipment (PPE) for those on the NHS frontline.

In the US, President Donald Trump claimed "total authority" in determining when to reopen the US economy, despite being challenged at his daily news briefing that this statement contradicted the 10th Amendment of the US Constitution, which leaves all powers not explicitly granted to the federal government in the hands of the states. Virus cases now exceed well over 600,000 and deaths are the highest of any country in the world at over 25,000 since the outbreak.[2]

Economic impacts and response measures

At the beginning of the COVID-19 outbreak economic forecasts were adjusted down by relatively small amounts in recognition of the potential impact of the pandemic. In the last week many countries, including the UK, have announced large changes to these forecasts, thus officially acknowledging for the first time the severity of the economic downturn caused by shutting down vast swathes of the global economy.

In a very bleak forecast, the Office for Budget Responsibility (OBR), the UK government's financial watchdog, predicted that the UK economy could shrink by 35% and more than two million people may become unemployed due to the lockdown. Their assumptions and calculations indicate that pent up demand would enable the economy to bounce back quickly. Many other economists dispute this prediction claiming this is far too optimistic.

The OBR said that the budget deficit (the difference between what the UK earns and spends) would balloon to a record breaking £273 billion which is significantly higher than the £158 billion recorded after the 2008 financial crash. In addition, they also predicted that the pre-crisis unemployment rate of just under 4% would hit a high of 10% before falling quickly after the bounce back, returning to the original levels sometime in 2023.

Approximately 1.4 million people have submitted a claim for Universal Credit since the lockdown measures were imposed on the UK on 23 March. At their peak the weekly claims were ten times the usual weekly average. The Department for Work and Pensions (DWP) mounted a huge logistical operation to redeploy 10,000 civil servants and 10,000 job centre staff to process claims.

Another indication of the economic shock that is set to follow in the next few weeks and months is the fall in the demand for oil. Despite the Organisation of Petroleum Exporting Countries (OPEC) agreeing the largest cut in oil production in their history, reducing the daily production by approximately 10 million barrels per day, oil prices have fallen again despite a brief rally leading up to the anticipated agreement. However, the International Energy Agency (IEA) on 15 April announced that global oil demand has plunged 29% over the last month in what may rank as the worst in the history of the oil industry.

Demand for oil in April has fallen by 29 million barrels per day to 25 year lows of only 70.4 million barrels per day. The IEA said *"The historic decisions taken by OPEC and the G20 should help bring the oil industry back from the brink of an even more serious situation than it currently faces… Even so, the implied stock build-up of 12 million barrels per day in the first half of 2020 still threatens to overwhelm the logistics of the oil industry – ships, pipelines and storage tanks – in the coming weeks."*

Gita Gopinath, the International Monetary Fund's (IMF) Chief Economist, said *"This crisis is like no other. The output loss likely dwarfs the losses that triggered the global financial crisis. This makes the great lockdown the worst recession since the Great Depression, and far worse than the financial crisis. The magnitude and speed of collapse in activity that has followed is unlike anything experienced in our lifetimes."*

The true test of the financial interventions from government and central bank policy makers will be how quickly economic activity resumes following the lifting of restrictions. The hope remains that, provided there is not a second more deadly wave of the pandemic, enough businesses will survive on the financial life support provided to eventually recover and start growing again. Only time will tell.

Market conditions

Since last week's blog, stock markets have continued to recover, especially in the US, where the S&P 500 is approximately 25% higher than the recent low point on 23 March. Not all markets are in the same place, as the FTSE 100 has only recovered just 14% from the 23 March low. It remains 27% below its peak in January. As at 15 April, markets have slipped lower by about 3% on concerns about the extended lockdowns and digesting the new reports forecasting severe recessions across the world in 2020.

Gold has recovered from the recent profit taking as it has surpassed the 1700 dollars per ounce reached on 8 March. In the financial press some are expecting gold to go higher as continued stock market volatility and nervous investors await more indicators of what economic shocks may follow.

Another safe haven remains government bonds with demand pushing down the 10 year yield on UK Gilts to below 0.3% and 10 year US Treasuries to just over 0.6%. In times of market stress, dollars, government bonds and gold attract large flows of worried investors chasing the safest place to ride out the storm.

Find out more

Read our latest **A Month in the Markets** by Portfolio Manager, John Mullins, for his full review of March and his outlook for markets as we continue to navigate the volatile climate during COVID-19 **here**.

[1] Statista - 15 April 2020
[2] BBC News - 15 April 2020

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