All. Together. Now.

Santander Asset Management

State of play

23 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

As the UK enters its fifth week of lockdown the UK Parliament reopened after the Easter recess with a very different approach to democracy. For the first time in 700 years government accountability will be carried out in the new "hybrid" world of partial attendance and remote calls. A maximum of 50 Members of Parliament will be physically allowed in the debating chamber, with another 120 permitted to join in via video conference which will be beamed onto television screens dotted around the walls of the 18th century chamber. On 22 April Dominic Raab, the Foreign Secretary, successfully conducted the first Prime Minister's Questions on behalf of Boris Johnson as the Prime Minister continues to recuperate at Chequers after contracting the virus. He is expected to take back the reins sometime next week provided his medical team give the go-ahead.

Official figures in the UK confirmed COVID-19 cases hit 138,078 on 23 April, with the total number of deaths at 18,738. According to the Financial Times (FT) analysis of the latest official data from the ONS (Office for National Statistics) released by ministers on 21 April the pandemic has caused more than twice as many deaths as the official figure of 17,337. The official figures are updated daily and only count those who have died in hospitals after testing positive for the virus. The FT extrapolation, based on figures from the ONS that were also published on 21 April, includes deaths that occurred outside hospitals updated to reflect recent mortality trends. The ONS data showed that deaths registered in the week ending 10 April were 75% above normal in England and Wales, the highest level for more than 20 years. There were 18,516 deaths registered during that period compared with the most recent five year average of 10,520 for the same week of the year.[1] The number of deaths in care homes has almost doubled in 4 weeks. That being said, despite this week's spike, the FT analysis also supports emerging evidence that 8 April saw the peak in the UK of deaths related to the virus as the mortality rate has been trending gradually lower.

The first British human trials of a vaccine for COVID-19 begin on 23 April. The health secretary announced that the government would allocate £20 million to scientists in Oxford to test the safety of their drug and £22.5 million to a similar project at Imperial College London. These trials are alongside other vaccine testing on two projects in the US and two in China.

Italy is working hard in an attempt to lift the lockdown restrictions by 4 May with the vast majority of the country ready except in the hardest hit region of Lombardy. The lockdown has slowed the virus but has been slower in doing so than originally thought with some saying that 4 May is too soon. The reasons behind this sluggish recovery are that some doctors now believe the large increase in pneumonia cases in January, were actually cases of COVID-19. Italy officially registered its first case of the virus on 20 February. It appears that Italy was unlucky enough to have the virus spreading for weeks before cases were identified.

In Spain authorities are considering measures to open up beaches with strict social distancing monitored by police. Research indicates that Spain in particular will suffer the most from this crisis as tourism makes up 12% of its economy and employs 13% of the total workforce.

President Trump made a surprise announcement suspending certain categories of immigration for 60 days in an attempt to protect US jobs. It strikes a re-election chord similar to the one that helped secure his first term back in 2016. President Trump said "We have a solemn duty to ensure unemployed Americans regain their jobs and their livelihoods, therefore in order to protect American workers I will be issuing a temporary suspension of immigration into the United States." So far, a total of 22 million Americans have filed for unemployment benefit since the country went into lockdown.

Economic impacts and response measures

There are various different measures of economic activity or sentiment that can give you a sense of how the world's economy is performing or what the short-term future looks like. Oil prices are one of them. On 22 April, Brent Crude (the global benchmark) fell to the lowest price since 1996 at $16 dollars per barrel from a high of $135 in 2007 and a 1 year high of $75 dollars per barrel. The price crash is a result of the lack of storage capacity to hold the glut of crude created by oil demand collapsing by a third following the lockdowns to contain the pandemic coming into force. It has been reported that one of the largest storage facilities in the world in Cushing, Oklahoma in the US, which can hold a maximum of 91 million barrels, was likely to be full by the end of this month.

The West Texas Intermediate (WTI) Futures (US Oil benchmark) turned negative for the first time ever on Monday, touching a low of minus $40 dollars a barrel before closing at minus $37 dollars a barrel. This was caused by traders who were willing to pay buyers to take oil off their hands.

Many market commentators are expecting additional stimulus and interventions from governments and central banks across the world, on top of the International Monetary Fund's estimated $6 trillion dollars already pledged, as more and more gloomy forecasts are released and digested by investors. Many agree that any new data due to be released in the coming weeks will get far worse before it gets better.

In the UK, the government programme to pay businesses 80% of the salaries of staff on leave opened on Monday and Chancellor of the Exchequer Rishi Sunak said it had registered over a million furloughed staff in its first 8 hours. Government budget forecasters (the OBR) said 30% of employees could end up on the scheme during a three-month lockdown, costing around £42 billion in what is Britain's most expensive programme to support the economy through the crisis.

All eyes are on China as it continues to lift restrictions on its people and businesses. In an attempt to kick-start the economy after the first contraction in gross domestic product since records began, the Chinese Government has handed out billions of yuan in shopping coupons to support retailers hardest hit by the COVID-19 outbreak. However, it appears that this is doing little to support the kind of spending needed to revive the economy with coupons being spent on essential items rather than on tourism or on larger ticket items, resulting in spending that would have happened anyway.

This raises the point about human reactions after the lockdowns are lifted. The assumption of many economic forecasts are that the world's economies would snap back into action and consumption would return to normal quickly. However, lockdowns are creating a culture of thrift in consumers, putting off purchases until they feel the virus is beaten, or their employment is considered more stable, probably lengthening the economic revival. Also, because this virus has created a sense of fear and put people on their guard, consumers may be slow to return to any kind of normality or social activity which include large crowds or close interaction. A proportion of those who have previously boarded a flight, eaten at a favourite restaurant or attended the cinema or theatre may be slow to gain sufficient courage to try this again after restrictions are lifted. Only time will tell how individuals and families react as restrictions are eased across different countries across the world.

Market conditions

As at 22 April, stock markets in the US and across the world have reacted positively to a rebound in oil prices after crude oil inventories data was released (on 22 April) close to the expected forecast following 2 days of market downturn. In addition, the news that some European economies were planning a lifting of restrictions to allow some of their respective economies to return to work was greeted with heavy trading.

Markets are reacting to any positive news at present, searching out reasons to be cheerful when the vast majority of the economic data and corporate news is gloomy. Any new news regarding vaccine testing or trials for new treatments of the virus are greeted with rises in stock prices as is any announcements on the lifting of lockdowns or restrictions on economies. Markets remain extremely volatile and sensitive which is unlikely to change in the short-term.

Find out more

Listen to our latest **Market Views: Check point** podcast with Portfolio Manager John Mullins, as he discusses how the team is positioning itself as we continue to navigate the volatile climate during COVID-19 **here**.

[1] Financial Times and Office for National Statistics - 22 April 2020