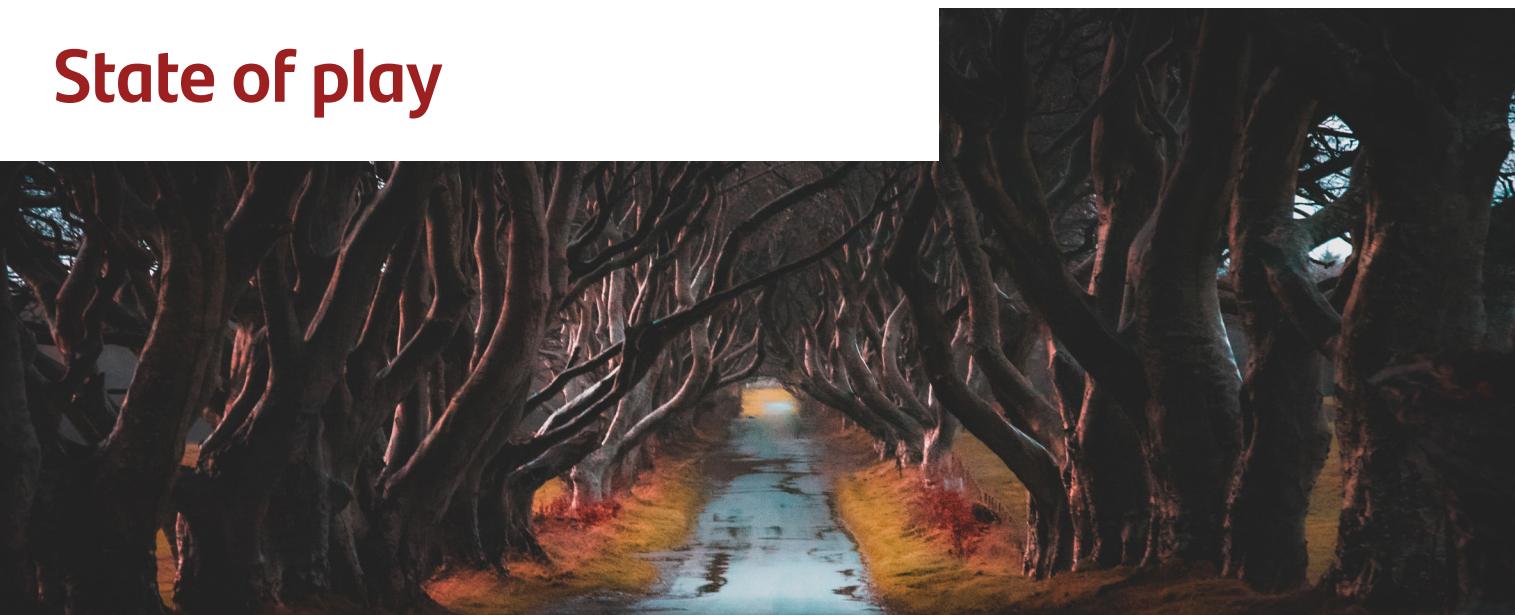




State of play



21 May 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:

"In this week's blog I consider the changes being made to enable the country to start the slow and gradual return to normal, albeit a new normal."

COVID-19: An update in the UK

The first tentative steps back to a new normal started in the UK this week, in a phased approach designed to revive the economy whilst keeping the virus spread under control. I am sure, like me, you will have noticed an increase of traffic on the roads, even for local journeys and less green spaces free at your local park. The infection rates and deaths in the UK have started to reduce, albeit very slowly since their peak a few weeks ago. The important critical care capacity has increased as the numbers of patients being treated in hospitals has reduced significantly.

The cases and deaths in elderly care homes remains a real concern. The UK Government has promised that every care home resident and member of staff in England will be offered a COVID-19 test by 6 June, following the impact of the virus on care homes, in which there have been almost 7,000 deaths to 24 April. Within the next four weeks, all those living and working in care homes for the over-65s will have been offered a test whether they are symptomatic or not.

On 17 May, news emerged of the race to develop a successful vaccine when Alok Sharma, Business Secretary, unveiled an agreement for the production of a vaccine against the virus responsible for COVID-19, if successful, with the University of Oxford and AstraZeneca. The deal with AstraZeneca to manufacture up to 30 million doses by September is part of a commitment to

deliver 100 million doses in total for people in Britain. Under the agreement, the UK Government committed an additional £65.5 million in funding for the vaccine being developed at the University of Oxford and £18.5 million for related work at Imperial College London. There are currently over 70 credible vaccine development programmes worldwide, and the first UK human trials have already begun.

Teachers, their various unions, the local authorities and the Department for Education are continuing to meet to discuss the most appropriate way to reopen schools on the target date of 1 June. Initially nursery, reception, years 1 and 6 in primary schools will be asked to attend, albeit in reduced class sizes to help with social distancing. Secondary school children will remain at home for now, with only years 10 and 12 who are approaching exams next year being asked to return, with many being taught by remote methods where possible.

The UK Government published a detailed plan for school reopening including the rationale. An announcement from the Prime Minister is due Thursday 28 May to confirm that the 5 key tests have been met in order to press the green light.

However, it makes clear that a full reopening of schools is not on the table and points to modelling by SAGE (the Scientific Advisory Group on Emergencies), which shows that doing so could create a second wave of the virus. To successfully implement this plan the children that do return are expected to be spread across multiple classrooms, with head teachers required to come up with plans to ensure risks are reduced to an absolute minimum. The UK Government confirmed that parents reluctant to send their children back in these groups will not be fined.

Employees who cannot work from home have been asked to return to work. The UK Government has asked employers to be flexible and stagger working times to reduce the numbers travelling to their place of work, especially if using public transport. The UK Government acknowledges that public transport use is still likely to increase but plans to publish new guidelines this week to those operating and running the various networks to ensure social distancing rules are followed.

Under the new rules, people can visit one other person from a different household, for example, a grandparent or partner if they sit two metres apart and remain outdoors. Unlimited exercise is now permitted alongside the controversial "sunbathing" in the park, provided social distancing rules are followed. However, the public are warned that they will still not be able to use areas such as playgrounds and outdoor gyms where there is a higher risk of close contact. Households can now drive to outdoor open spaces, irrespective of distance, so long as they respect social distancing rules while they are there. The UK Government said this is justified because it does not involve contact with people outside your household. It overturns previous rules put in place at the start of lockdown which saw police forces setting up road checks and even launching drones to stop people visiting rural beauty spots. The guidelines for the over-70's and the clinically vulnerable remains unchanged.

Economic impacts and response measures

In his first attendance at the Lords Economic Affairs Committee, Rishi Sunak, the Chancellor of the Exchequer, shared his expectations of what to expect from the UK recovery. Whilst he hoped for "an immediate bounce back", he suggested that based on data from Europe that this was unlikely. One amazing statistic I noticed this week backing up Mr Sunak's words from the European Automobile Manufacturers' Association (ACEA) describing how the number of new passenger car registrations in the UK may indicate the hit to the UK economy - the new car registrations in April 2020 when compared with April 2019 is a whopping -98.3%!

Claims for universal credit, the benefit for working-age people in the UK, hit a record monthly level in the early weeks of lockdown. There were 1.5 million claims made between 13 March and 9 April, official figures from the Department for Work and Pensions (DWP) - confirmed. This is six times more than in the same period last year. The DWP said that the number of people on universal credit had increased by 40% as a result of the coronavirus pandemic.

The latest data from the Office for National Statistics (ONS) showed the number of people claiming unemployment benefit jumped by 856,500 to 2.1 million in April. This is the fastest monthly rise since records began. The Bank of England predicts 2 million job losses this year, which would take unemployment from record lows at the start of the year to 9%. This excludes the 7.5 million or more people being paid by the UK Government on the furlough scheme, which is nearly 25% of the working population.

If a large chunk of these are laid off in the autumn, then the unemployment rate could reach levels not seen since the 1980's. Employers reduced their headcount by 450,000 in April to 28.6 million, excluding furlough. In another indication of the bleak employment outlook, the number of job vacancies fell by nearly 170,000 to 637,000 in the three months to April, a 25% reduction. The worst hit sectors were accommodation and food services, closely followed by construction, telecoms and manufacturing, the ONS data showed.

The UK Government also announced 464,393 of loans worth £14.18bn that have been approved under the Bounce Back Loan Scheme, which allows small to medium-sized businesses to borrow up to £50,000. In addition, 40,564 of loans worth £7.25bn have been approved through the Coronavirus Business Interruption Loan Scheme, where small to medium-sized companies can access funding up to £5m.

Demonstrating the global nature of the economic shutdown, Germany confirmed that its economy would likely shrink by over 7% this year with a similar recovery figure in 2021. The main shock is expected in the second quarter with the economy expected to shrink by more than 11%. This came on the back of an initial agreement made between France and Germany to back a €500bn package in addition to the massive measures announced previously. Also, the details confirmed that the intervention was designed to support regions most affected by the COVID-19 outbreak, like Lombardy, in Northern Italy.

Market conditions

Stock markets continue to hold their nerve against the deluge of worsening economic data. It is often said that the stock markets are not the economy but the recent rally best reflects the rise and success of the technology sector in particular in our lockdown world. The S&P 500 has recovered much of the losses experienced in the Q1 sell off, as investors focus on increased stimulus and positive virus related news flow. The UK FTSE 100 jumped over 4% on Tuesday alone, but is lagging all other overseas indices by some distance since the start of the crisis. This latest increase in markets this week was spurred by investors expecting a quick recovery. They are betting that the latest vaccine developments alongside the EU intervention will support economies starting to emerge from lockdowns. This is reflected in the rise of the oil price as demand increases with Brent Crude oil having doubled in price in just 4 weeks.

The payment of UK company dividends came under fire as the UK Government announced that large firms who borrow from the UK taxpayer may be restricted from paying bonuses and dividends in certain circumstances. The limit on the Coronavirus Large Business Interruption Loan Scheme has been lifted from £50m to £200m. Firms who want more than £50m will face restrictions until the loan is repaid. The Bank of England will implement the restrictions on the scheme it runs, as well as seeking a letter from firms who wish to borrow for more than a year. As well as limiting dividends and cash bonuses to senior management - unless they were announced before applying for the government loan - companies will be prohibited from share buybacks.

UK equity income funds have had a tough few months as companies scrapped payouts to shareholders during the crisis. The first major blow for income came as the UK's biggest banks scrapped their payments for the rest of the year following pressure from the Bank of England to maintain a cash buffer to help them through the COVID-19 crisis. Further pressure from the central bank encouraged insurers, including Aviva, to suspend their payment until further notice. In April, Link Group's UK Dividend Monitor estimated UK equity income funds were set to suffer a £28bn dividend short-fall this year as almost half of UK companies planned to cull payments.

This has an enormous knock-on effect, as I mentioned briefly in last week's blog. The Link report also highlights the concentration of UK dividends in the largest 15 companies which paid 64% of the total dividends in 2019. Small investors have been withdrawing large amounts from various UK equity income funds as highlighted by Morningstar in March and April. Schroder UK Equity Income had £106m of withdrawals alone.

The significant drop in dividend payouts and a worsening outlook brings sharply into focus that although global markets have made a strong recovery since the end of March, the economic reality means that investing for an income, whether this be in cash, bonds or stocks, the environment has probably never been more difficult. No doubt this will filter through to both solution providers ability to maintain investment income payments in the short-term and investors trying to

pick the best way to generate additional income in an environment without any significant yield. The conditions are unlikely to recover for many months even if we are lucky enough to experience a sharp "V" shape recovery and bounce back.

Find out more

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

Note: Data as at 20 May 2020.

Important Information

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