State of play

11 June 2020

Our Investment Specialist Simon Durling shares his thoughts in our latest weekly update:

"In this week's blog I explore why the unemployment rates in the UK and elsewhere could have repercussions in terms of economic recovery and market sentiment for the remainder of this year."

The almost universal response to COVID-19 has been to shutdown vast swathes of the economy and place citizens under lockdown in the hope of suppressing the virus. As many countries start to lift these restrictions and restart their economies, complex decisions await regarding when to extend the easing and how far these changes should go. Although guided by experts, the decision ultimately remains a political one.

UK school re-openings

When UK Prime Minister Boris Johnson outlined his plans to ease lockdowns, he said that each step was conditional and subject to change. A prime example of this has been the decision on reopening schools in England. Unlike Scotland, Wales and Northern Ireland, English schools welcomed back children in Reception, Year 1 and Year 6 last Monday, albeit with a mixed response from parents and schools. Attendance from those children asked to return varied widely with anything from 30% to 70%, showing that not all parents feel confident that the school environment is safe enough. Also, certain Local Authorities and schools chose to delay their openings until 15 June at the earliest, based on region and how prepared those schools were to accommodate measures to protect children in time for reopening.

On Tuesday the UK Government confirmed that their original plan to send all children back to school before the August summer holidays had been abandoned. The decision has instead been delegated to individual schools to decide whether more children return to their school and when. The scientific evidence was mixed about the potential impact on the infection rate if schools fully reopened, but, by taking a more cautious route, the UK Government has decided against pressing ahead with plan 'A', meaning that the vast majority of students will not return until September. Schools have been attempting to run lessons remotely but success has been varied with some teachers reluctant to video their lessons whilst others have refused to mark or assess work. One of the motivations behind the reopening of schools was to enable more parents to return to work and to help restart the economy. The decision to ditch plan 'A' has the potential to slow the UK's economic recovery, with knock on impacts to jobs, the ability of companies to survive this crisis and the cost to the UK Exchequer over the longer-term.

Furlough schemes in the UK and global employment data

The Treasury announced that 8.9 million workers are now covered by the UK Government's furlough scheme, representing over a quarter of the UK workforce. The cost to the public purse has reached £19.6bn thus far with the scheme due to run until the end of October (with employers expected to start to contribute from August onwards). A similar programme for the self-employed has seen claims rise to 2.6 million at a cost of £7.5bn. Self-employed workers can continue to apply until 13 July when a second grant will be made available in August.

Critical to the success of these schemes is whether or not employers retain all of those who have been supported by the UK Government payments when they restart trading. If a large proportion of the 8.9 million supported do not keep their jobs, then this will have been an expensive exercise in universal income payments dressed up as job protection. The fear remains that many small businesses run by the self-employed will fold, adding to the potential for mass unemployment. Similar schemes in other countries are being monitored closely as a worse than expected outcome could dent market sentiment and send stock values tumbling again.

The reason why unemployment data is so crucial to the economic outlook was best demonstrated last Friday when America's non-farm payroll monthly jobs data showed an unexpected record rise in employment of 2.2 million. Stock markets around the world surged as this supported the view that the worst of the economic damage caused by the COVID-19 pandemic may be over, thus boosting confidence in a quick rebound. This optimism was also supported by many investors who believe that the US Government and the Federal Reserve will together provide further stimulus to encourage growth, should it be needed. The key to this new data is whether other evidence comes to light to back up the view that the economic recovery is

assured. If this data remains an anomaly, then gloom may return quickly to investors. The market remains very sensitive to new data releases - making for a very volatile environment and the range of possible outcomes much wider than in normal market conditions.

Impact of civil unrest on the US November elections

In the US, the death of George Floyd and the subsequent civil unrest has moved political polls in favour of the expected Democratic Party nominee Joe Biden. The backlash in the last two weeks has added to the mounting criticism directed at President Trump around his handling of the pandemic and the subsequent economic impact of lockdowns. The most recent national data in the key swing states points to an increasing lead for the Democrats which could lead to a clean sweep of the White House, a change in the Senate from Republican to Democrat and the retention of the House of Representatives. Whilst there is no certainty that President Trump will lose in the November election, given his track record to upset the odds, the most recent wave of feeling from the Black Lives Matter movement may be the last straw for the incumbent President. The ramifications for stock markets in the US and the potential change in economic direction if Joe Biden became President under a Democratic ticket cannot be underestimated. The tax cuts for corporations implemented by President Trump would likely be reversed and additional legislation affecting the health care and tech sectors could weigh on US markets in the immediate aftermath of a change at the White House in November.

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 9 June 2020.