State of play

2 July 2020

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

Second wave outbreak concerns and local lockdowns

At the start of the COVID-19 pandemic the response around the world was for whole nations to impose lockdown restrictions on its citizens rather than target specific areas. In a sign that the risks of further outbreaks or a second wave have not gone away completely, pockets of the population which show signs of the virus spreading at a faster rate than the rest of the country are now being targeted with local lockdowns.

China has been monitoring new outbreaks nationally for some weeks but targeting specific regions or cities in an attempt to keep the economy moving whilst controlling the spread of the virus. Germany has followed suit with the districts of Gütersloh and Warendorf last Tuesday becoming the first in Germany to go back into lockdown since the COVID-19 shutdowns began easing in May, affecting more than 600,000 people. In Gütersloh, the spike is thought to have originated in a slaughter house and spread to the wider community, helped by the low temperatures providing an environment for the virus to thrive. It was the country's first big setback in tackling the pandemic.

In England the city of Leicester, with a population of over 400,000, has provided 10% of the country's positive tests for COVID-19 in the last 2 weeks after a surge in cases. This is three times higher than the next highest town in England, but importantly, the latest trend represents a sharp rise in cases locally. As a result the UK Government announced the shutting of schools in the area as well as the local cancellation of next Monday's easing of restrictions allowing restaurants, pubs, shops and hairdressers to open. Matt Hancock, the Health

Secretary, told people in Leicester to "stay at home as much as you can" and recommended against "all but essential travel" to and from the city. "The more people follow these rules in Leicester, the faster we will get control of this virus, and get Leicester back to normal," he said. Prime Minister Boris Johnson signed off restrictions on Leicester and some surrounding areas after a meeting of the COVID-19 Operations Committee. Changes to shielding rules have also been delayed, meaning that clinically vulnerable people will have to stay isolated at home for longer.

Economic news

Britain's economy shrank by the most since 1979 in the first quarter of the year as households slashed their spending, according to official data that included the initial outbreak and subsequent first few days of the COVID-19 lockdown. The Office for National Statistics (ONS) announced Gross Domestic Product (GDP) dropped by a quarterly 2.2% between January and March which was below the market expectation of -2.0%. Britain's economy may have contracted by 20% in the first half of 2020 the Bank of England (BoE) said in June, but the full effects of the sectors worst hit by the lockdown are yet to be seen, since the lockdown began on 23 March. Although the BoE went on to say that the slump in the economy this year could be the worst in three centuries, their Chief Economist (Andy Haldane) was also quoted as saying Britain's economy is recovering faster than previously thought from the COVID-19 crisis, though this was tempered by a warning that faster growth could lead to higher inflation.

The data released builds more detail on the original figures released for the first quarter, which showed a surge in household saving as their spending collapsed by the largest amount, in cash terms, since records began in the 1950s. The household savings ratio shot up to 8.6% in the first quarter from 6.6% at the end of 2019. The ONS has previously estimated that Britain's economy shrank by a record 20.4% in April from March but there have been some signs of recovery more recently. The ONS also said Britain's current account deficit widened by more than expected in the first three months of 2020.

In response to this economic shock, Prime Minister Boris Johnson, speaking in Dudley, set out his plan to speed up the British economy's recovery on Tuesday when he will promise to fast-track £5bn of infrastructure investment. Aiming to emulate the New Deal policies of the depression-era American President Franklin D. Roosevelt, Mr Johnson said he wants a government that "puts its arms around people at a time of crisis". In the aftermath of the Wall Street Crash of 1929, President Roosevelt launched one of the largest, most expensive US Government programmes which included building schools, hospitals and other large infrastructure projects. In a bid to boost the country's financial outlook, Mr Johnson is pledging to put jobs and infrastructure at the centre of the UK Government's economic growth with a commitment to "build, build, build". Included within the speech he announced plans to overhaul planning laws and processes. He said "... it is to galvanise this whole process that this Government will shortly bring forward the most radical reforms to our planning system since the end of the Second World War. Yes, we will insist on beautiful and low-carbon homes, with the right space standards but COVID-19 has taught us the cost of delay." Mr Johnson also said he wants to use the COVID-19 crisis as an opportunity "to build the homes, to fix the NHS, to tackle the skills crisis, to mend the indefensible gap in opportunity and productivity and connectivity between the regions of the UK".

Market roundup at the end of the second quarter of 2020

This week sees the end of the second quarter of 2020 with a very different outcome when compared to the first. The volatility caused by the pandemic and subsequent lockdowns initiated an economic global shutdown and unprecedented financial and economic interventions.

As we enter the third quarter, stock markets appear to be trading within a range of values which have been very similar since they reached their recent peak on 8 June. The rise in values of all indices during the quarter has been swift with some, like the technology dominated NASDAQ, actually trading higher than before the crisis began. In the UK however, despite the FTSE 100 enjoying one of the best quarter's performance for many years, it is still trading well below the highs before COVID-19 made its impact. London's big oil stocks were the biggest drags this week after Shell wrote down the value of its assets by $22bnn following the recent crash in oil prices and the expectation that it will take time for demand to recover to pre-virus levels.

High Yield and Corporate Bonds made a strong recovery during the second quarter as the full extent of the financial stimulus by governments and central banks took hold and the buying of Bonds by central banks lowered yield levels and spreads providing excellent returns for investors. Whilst UK 10 year Government Bonds fell from 0.326% at the start of the second quarter to a record low of 0.139% on 25 June before rising slightly since. The returns over the quarter were steady but not as strong as Corporate or High Yield Bonds which fared better from the selloff in March.

At the time of writing (30 June) Gold had reached the psychological barrier of $1800 per ounce having started on 1 April at $1607 per ounce. Volatility in markets often supports investment in Gold and Q2 2020 has been no exception. Brent Crude Oil finished at just above $41 per barrel having sunk to the lowest level for decades at $16 per barrel on 22 April. It remains well below the $70 per barrel it was trading at before the crisis began after a huge drop in demand caused by the lockdowns.

Find out more

Listen to our latest **Market Views: Check point** update with John Mullins, Portfolio Manager, as he shares his thoughts on some of the main themes over the last couple of weeks and how they have been driving market behaviour **here**.

Note: Data as at 30 June 2020.

Santander
Asset Management

Important Information