

# State of play



9 July 2020

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

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## COVID-19: Returning to normal may be harder than we think...

After 103 days of closed doors pubs, cafes and restaurants opened to customers for the first time last weekend. The anticipated pent up demand translated into busy venues attempting to return to normal whilst adhering to strict guidelines on how to keep their staff and their customers safe. Many implemented booking systems to stagger the arrival of customers whilst others offered table service to ensure social distancing was maintained. Despite these endeavours, three pubs (one in each of Yorkshire, Hampshire and Somerset) immediately closed on Monday after customers who had visited tested positive for the virus. All venues are in the process of being deep cleaned and customers are being contacted and advised to self-isolate if they show symptoms. It is an example of the huge challenge facing the hospitality sector in the coming months as they try to recover from the worst period in their long history.

New Zealand and Australia have managed the virus outbreak better than most, with New Zealand in particular receiving many plaudits for their approach to suppressing infection rates. However, in a reminder of how easy it can be for further spikes in infections to occur, Melbourne, Australia's second largest city with five million inhabitants, implemented a new lockdown which is set to last for six weeks. At the end of last week Melbourne recorded the highest daily rate of new infections since the crisis began and residents are again being asked to stay at home for all but essential travel. As I mentioned in last week's update, this new 'local' approach to lockdowns, following Galicia in Spain, Leicester in England and other places across Europe, appears to be the new way to tackle

the spread of the virus without a mass shutdown of the economy - which itself has caused so much financial, economic and social damage.

A significant study in Spain has raised doubts over the feasibility of herd immunity providing a medium-term solution to the pandemic. A study of 60,000 people showed that only 5% had developed antibodies whereas between 70 and 90% of a population need to develop immunity to effectively defeat a virus. The study did show that antibody levels are higher in areas that have suffered higher infection rates but remain significantly below levels needed for herd immunity. The findings also show that even in a country that has been significantly impacted by the virus, the vast majority of the population has not been exposed to it. The study suggests that the collateral damage of so many deaths and overwhelmed health systems before herd immunity becomes effective means that social distancing and 'test, track and trace' are imperative to try and control the epidemic before a vaccine is available.

Lastly, after many months of describing the virus as just a 'little flu' and playing down the effects of COVID-19, President Bolsonaro of Brazil has tested positive for the virus. He has flouted guidance about social distancing and wearing face masks and has been one of the world's leading sceptics about the virus and the subsequent global response. 1.6 million Brazilians have tested positive for the virus and of those almost 67,000 have died, a total surpassed only in the US.

## Economic news

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Facing a potential economic shock that could take many years to recover from and a jobs crisis caused by mass unemployment, the Chancellor of the Exchequer, Rishi Sunak, outlined his plans to help avoid this gloomy outcome. In a summer statement delivered following Prime Minister Questions in the House of Commons, he announced a raft of measures including a cut in VAT and stamp duty, all as part of a £30bn economic stimulus package.

Focusing on the travel and hospitality sector, the UK Government is to help pay for people's meals in restaurants and pubs. In an unprecedented intervention, Mr Sunak said that everyone in Britain would be given a 50% discount on meals out worth up to £10 per head during August. The discount will apply on food and non-alcoholic drinks between Monday and Wednesday only. Restaurants will be able to claim the cost back and should receive the money within five days. The Chancellor said the plan aimed to tackle the economic effects of COVID-19 and to give people the confidence to "eat out to help out". The UK Government is also cutting VAT on food, accommodation and attractions from 20% to 5% until January as part of an attempt to revive the hospitality sector. The cut will cost the UK Government £4.1bn<sup>1</sup>.

In addition the threshold at which people start paying stamp duty will rise from £125,000 to £500,000, meaning nine in ten people will be exempt from the levy. This stamp duty holiday will run from now until 31 March 2021. This is designed to kick-start the housing market after it was frozen during the

lockdown. The measure will save people an average of £4,000 (at a cost of approximately £3.8bn to the UK Government <sup>1</sup>).

Next up, Mr Sunak announced a 'job retention bonus' which will see companies paid £1,000 for each furloughed worker they bring back and keep in post until January. He said that if companies took up the bonus for every furloughed worker it would cost £9bn. The Chancellor said that the furlough scheme will be wound down in October, despite calls from Labour and businesses for it to be extended. He said: 'leaving the furlough scheme open forever gives people false hope that it will always be possible to return to the jobs they had before. And the longer people are on furlough, the more likely it is their skills could fade, and they will find it harder to get new opportunities. It is in no one's long-term interests for the scheme to continue forever — least of all those trapped in a job that can only exist because of government subsidy'. He also confirmed that the UK Government would push ahead with a £2bn "kick-start" scheme that would involve the state paying the wages of young people on work placements for six months. 'I urge every employer to hire as many kick-starters as possible... there will be no cap on the number of places available' he said. Companies that take on apprentices will receive a £2,000 bonus.

Finally, the UK Government announced they would oversee a 'green recovery' with a £3bn plan to cut emissions, including a £2bn grant scheme to cover the cost of insulation and other measures to make homes more energy efficient, with the surplus being spent to push ahead with plans to "decarbonise" schools and other public buildings.

In response, the opposition party said that the measures did not go far enough and only time will tell if the plans announced will help speed up the UK's economic recovery.

## Market roundup at the end of the second quarter of 2020

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. Since last week's update there have been no significant moves in markets or asset classes as they wait for more concrete news on earnings or economic data, which may provide insight on what lies ahead. At the time of writing Gold had reached the psychological barrier of over \$1800 per ounce - having started on 1 April at \$1607 per ounce. Volatility in markets often supports investment in Gold and the current price appears to support this argument.

**Find out  
more**

Read our latest **A Month in the Markets** by Portfolio Manager, John Mullins, for his full review of June and his outlook for markets [here](#).

<sup>1</sup> BBC News - 8 July 2020  
Note: Data as at 8 July 2020.



### **Important Information**

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