State of play

16 July 2020

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

COVID-19: Masks to become mandatory in UK shops as the US tackles a surge in cases in Florida

In the early stages of the pandemic the UK Government remained sceptical on the benefits of wearing a face mask. Months later, despite Michael Gove, Chancellor of the Duchy of Lancaster and Minister for the Cabinet Office, having stated in an interview over the weekend that wearing a mask needn't be mandatory, by Monday evening Prime Minister Boris Johnson was announcing that wearing a face covering or mask in shops would become mandatory from 24 July with a potential £100 fine if caught not wearing one. The World Health Organization (WHO) has stated from the outset that wearing a face covering does reduce the risk of transmission and in some countries, especially in Asia, these have become the accepted norm.

Mr Johnson described wearing facemasks as 'extra insurance' against the return of COVID-19. A spokesman for No 10 said: 'There is growing evidence that wearing a face covering in an enclosed space helps protect individuals and those around them from coronavirus. The Prime Minister has been clear that people should be wearing face coverings in shops and we will make this mandatory from July 24'. The police have expressed concerns that enforcing the new rule would be impossible and have asked retailers to take control and only allow shoppers entry if they are wearing a face covering or mask. Children under 11 and those with certain disabilities will be exempt.

The leisure industry has been particularly impacted by the pandemic with many gyms, swimming pools and leisure centres closing and suspending the membership payments of their clients. As such, the UK Government announcement that these would now be able to reopen from 25 July, under strict safety guidelines, came as a welcome relief. The decision is linked to the health of the nation under lockdown and individuals ability to fight the virus. People who are overweight or suffering from obesity related conditions such as Type 2 Diabetes are more vulnerable from the virus and therefore keeping fit can help to mitigate this as well as trying to protect people's mental wellbeing.

Scientists advising the UK Government are warning that a second wave of COVID-19 infections in the UK this winter could be more severe than the first. In a worst-case scenario they say there could be nearly 120,000 hospital deaths, but stress that effective preparations and responses, i.e. lockdowns, treatments or vaccines, could help to reduce the risk.

California became the latest US state to return to a form of lockdown as virus infections continued to surge. California Governor Gavin Newsom announced that restaurants, zoos, casinos, cinemas and wineries would no longer be able to open indoors. Alongside this the closure of bars, gyms, places of worship, non-essential offices, hairdressers and shopping malls was announced. California is not alone, as Florida became one of the key epicentres for the virus spread in America, averaging nearly 10,000 new cases per day for the last week. On 12 July, the state broke the national record by reporting 15,300 cases in a single day which, according to Reuters, if Florida were a country it would be fourth in the world for most new cases in a day. As of 13 July, over 4,200 Floridians have died due to the virus.[1]

President Trump's quarrel with his leading virus expert has become very public after the White House distributed a list of his supposed mistakes to journalists. Dr Anthony Fauci, 79, has become the public health face of the pandemic and according to polls has the trust and backing of 67% of the American public. Initially they appeared together at daily COVID-19 press conferences in the early stages of the outbreak, and President Trump would occasionally make warm remarks about their shared New York childhoods and appeared to back his expert. However, as President Trump continues to push for more easing of restrictions despite a resurgence in infections, he has increasingly side-lined Dr Fauci, who has served as Director of the National Institute of Allergy and Infectious Diseases under every president since Ronald Reagan. Apparently, the pair have not spoken since the first week of June.

Economic news

Following the release of the latest gross domestic product (GDP) data for the three months to May the Office for National Statistics (ONS) said that most of the UK economy was 'in the doldrums'. The full impact of lockdown hit hard as the UK's economy shrank by 19.1% in the three months to May 2020. Although manufacturing and house building showed signs of recovery in May 2020 as businesses saw staff return to work, this was never going to be enough to recover from the fall of 6.9% in March 2020 and the record 20.4% decline in April 2020.

The Deputy National Statistician for economic statistics at the ONS, Jonathan Athow, said 'the economy was still a quarter smaller in May than in February, before the full effects of the pandemic struck... in the important services sector, we saw some pick-up in retail, which saw record online sales. However, with lockdown restrictions remaining in place, many other services remained in the doldrums, with a number of areas seeing further declines'. Economists abandoned their hopes of a swift, V-shaped recovery after figures from the ONS showed that output rose by only 1.8% in May 2020. This was weaker than the 5.5% rebound expected by economists. Although data is yet to be released, analysts expected stronger performance in June 2020, when the economy should have benefited from the reopening of many non-essential shops, but the services sector will continue to lag behind its pre-crisis levels as pubs, restaurants, cafes, cinemas and museums did not start opening until July.

According to the Office for Budget Responsibility (OBR) Britain's economy could shrink by more than 14% this year and UK Government borrowing could reach £400bn if there is lasting damage from COVID-19. Under an 'upside scenario', output would fall by 10.6%, while UK Government borrowing would be limited to £263bn. All of the scenarios outlined in their report signal the worst downturn in the UK economy in 300 years.

China recently reported that their economy is back in growth territory with their GDP during the second quarter growing 3.2%, following their 6.8% decline in the first quarter of 2020. Whilst a Reuters poll was predicting 'China's economy likely returned to modest growth in the second quarter after a record contraction', this figure is higher than experts were predicting, with the world's second-largest economy being estimated to have grown by 2.5% from a year earlier.

As an indicator of economic activity, travel data presents a picture of incomplete recovery in China. Highways and rail passenger traffic shows fewer people travelling than the same period last year, indicating that many aren't travelling long distances, whether for work or tourism. Tourism during June's national holidays was down by about half compared to 2019 and the stay-at-home impulse is still strong in the biggest cities, with subway usage in Beijing and Shanghai remaining below normal levels.

One upside for China's retail sector has been the almost complete halt of global travel and disrupted networks of parallel importers, which have trapped high-end Chinese shoppers at home. It is reassuring to markets that the Chinese economy is once again growing, albeit well behind the average growth of the last few years.

In contrast, Singapore's economy plunged into recession in the last quarter (Q2 2020) as an extended lockdown hit businesses and consumer spending. Economic growth in the city state shrank by 41.2% compared to the previous quarter, the country's biggest contraction on record. Authorities forecast it will be Singapore's worst recession since independence from Malaysia in 1965. Official data showed Singapore's second quarter GDP shrank 12.6% on a year-on-year basis.

What is GDP?

Gross domestic product (GDP) is the sum (measured in pounds) of the value of goods and services produced in the economy. But the measurement most people focus on is the percentage change - the growth of the country's economy over a period of time, typically a quarter (three months) or a year. It's been used since the 1940s and is the main way of determining the health of an economy.[2]

Market roundup at the end of the second quarter of 2020

Many stock indices during the second quarter of 2020 had their best return for more than twenty years and hit recent highs on 8 June. Investors are looking for clearer signs of what the future might hold, which has left markets range bound and sensitive to news flows (whether negative or positive). Early news on successful vaccine trials may have shifted momentum in a positive direction even though these trials are very early and have yet to be tested on the large numbers that are necessary in order for them to go to the final sign off stage, and be manufactured and distributed. The next couple of weeks sees the release of earnings numbers for a number of large global companies which may provide a more accurate picture of the financial impact of lockdowns during the second quarter. Whilst many investors remain concerned about the long-term impact on jobs, both in the UK and overseas, the release of jobs data in the UK, at the time of writing, indicates a potentially more positive outcome than some economists have predicted. Clearly, the furlough scheme in the UK is likely to mask the true reality of the employment market and it's unlikely that a clearer and more accurate picture will emerge until the scheme finishes at the end of October.

Government Bond yields both in the UK and overseas remain at record lows and offer the prospect of limited long-term returns for investors at present. Demand for them remains high though as nervous investors seek safe havens ahead of what is expected to be a brutal set of second quarter GDP data for most economies.

Gold hit new highs last week for 2020 as low yields and nervous investors try to diversify away from the risks of holding stocks. As mentioned in last week's update, Gold is a popular alternative for those looking to insulate their portfolios from market risk and ride out any potential storms that could be caused by delays in vaccine development or second waves of the virus.

At the time of writing, Oil is still trading around $40 per barrel, although due to a surge in supply in the last couple of weeks the price has fallen back c.8-10% from $43 per barrel based on concerns about demand. Although many economies have eased restrictions and activity is picking up, the demand is still well below the pre-crisis levels.

Find out more

Read our latest **A Quarter in the Markets** by Portfolio Manager John Mullins, for a review of markets during the second quarter of 2020 as well as his outlook for the investment landscape **here**.

[1] Johns Hopkins University
[2] BBC News
Note: Data as at 14 July 2020.

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Important Information