Santander Asset Management

State of play

31 July 2020

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

COVID-19: UK Government implements a 14 day quarantine for people returning from Spain following a spike in cases

People with COVID-19 symptoms have been told to self-isolate for longer under toughened guidance designed to stop infection spreading after growing concerns that Europe may be facing a second wave over the coming weeks. Chris Whitty, the Chief Medical Officer for England, said that there was a 'real possibility' of passing on the virus more than a week after getting ill and that people must self-isolate for ten days instead of seven.

The travel industry has been one of the hardest hit by the COVID-19 pandemic since the world went into lockdown. Many travel firms and airlines have either gone into administration or had to lay-off large parts of their workforce to survive. Now, only a few short weeks since restrictions were lifted, new quarantine rules have been brought in by Downing Street in response to rising infections rates in North-East Spain: the Foreign Office advice on travel to Spain is for essential travel only. The Spanish Government, which relies on travel and tourism for 15% of their economy, have lobbied their UK counterparts, arguing that many of their holiday islands have much lower infection rates and should be excluded from this blanket rule change. However, ministers dashed hopes that holidays to the Balearics and Canaries could go ahead without quarantine on return, by changing travel policy on the islands to bring it into line with that for the mainland. The change leaves the plans of nearly a million Brits in tatters.

The UK Government insisted that rules on overseas travel were under constant review, raising fears for millions of holiday makers as 11 European countries for which the UK does not enforce a quarantine have suffered COVID-19 increases in recent days. The travel industry has warned of a sharp drop in bookings as fear spreads, adding to the already dire situation for many firms.

Many tour operators are now expected to cancel holidays, with TUI and Jet2, the biggest companies, having already cancelled trips to the Spanish mainland for the next few weeks, with more no doubt to follow. The impact on them is clear as TUI announced it is set to shut 166 high street stores in the UK and Ireland, affecting up to 900 jobs. The UK's largest tour operator said it hoped to keep on 630 workers in a mix of sales and home-working roles, and in remaining stores. The decision was made after changes in customer behaviour, including a shift to online, the firm said in a statement. About 350 retail stores will remain following the closures.

Many travel insurance policies will not cover travellers who independently booked flights and accommodation who now find their plans affected by the change made by the UK Government. Also individuals will have to check with their employer whether they are able to take two weeks off work to adhere to the rules on their return unless they can carry out their duties from home. Some will have to take paid annual leave whilst others may have to take the time unpaid if they have no annual leave allocation remaining. In order to shorten quarantine time frames there are growing calls to test individuals on arrival at airports. However, some argue that this remains a risk as those who may have contracted the virus abroad may have been infected at the latter stages of their holiday and if tested too early will test negative for the virus creating a false sense of security. The debate now is can tests be done on arrival and then a week later to try to capture as many people who may have caught the virus abroad as possible. This however is only likely to shorten the time in quarantine by a few days.

In breaking news at the time of writing, United States (US) President Donald Trump has, via Twitter, called for November's Presidential Election to be postponed, claiming increased postal voting could lead to fraud. He suggested a delay until people can 'properly, securely and safely' vote. However, there is no evidence of widespread fraud, according to numerous nationwide and state-level studies over the years. US states want to make postal voting easier due to public health concerns over the COVID-19 pandemic. Earlier this month, six US states were planning to hold 'all-mail' ballot elections this November: California, Utah, Hawaii, Colorado, Oregon and Washington. These states will automatically send postal ballots to all registered voters, which then have to be sent back or dropped off on Election Day - although some in-person voting is still available under certain circumstances.

Four of the big technology firms which account for nearly a fifth of the US market total value, all reported results late on Thursday evening beating market expectations, solidifying how some businesses have thrived despite the COVID-19 pandemic. This came on the heels of a bruising Congressional hearing to look into alleged abuse of their global dominance. The chief executives of Facebook, Amazon, Google and Apple faced tough questions in Congress on Wednesday at a hearing which marked the climax of a year-long investigation by a bipartisan panel from the House of Representatives, which had examined over more than

1.3 million documents and conducted hundreds of hours of interviews with legal experts, business rivals and mid-level executives at the firms. Mark Zuckerberg, Jeff Bezos, Sundar Pichai and Tim Cook all sought to emphasise the positive contributions made by their companies and the extraordinary innovation which they claim has delivered vast improvements in various aspects of our lives. It was unclear on Wednesday how much reputational damage they had sustained or what recommendations for constraining their businesses would emerge in the report that the politicians will release in the coming months.

Latest economic news: a record drop in output for the US economy

The US economy shrank by 9.5% in the second quarter when compared to the first three months of this year according to the US Commerce Department. This represents the sharpest fall since the US Government began keeping records in 1947. Whilst the fall is slightly better than the forecasts had predicted, it follows the 5% contraction in the first quarter. In a sign of the challenges faced in recovering from the crisis, the continuing jobless claims has also risen back above 17 million. Unemployed Americans are set to lose a $600 weekly jobless benefit supplement on Saturday, when part of a historic $3tn government aid package comes to an end. Talks between the Democrat-controlled House of Representatives and the Republican-controlled Senate on extending the benefits are currently deadlocked so it is uncertain whether a solution can be reached in time before it is due to expire.

Whilst Germany reported much better economic numbers than the US, the German economy still shrank at its fastest rate since records began in 1970 according to new official figures. The total production of goods and services declined by 10.1% during the second quarter ending in June. The record contraction followed a smaller drop in activity of 2% in the previous three months. The German economy, like others around the world, has been hit severely by the pandemic and the restrictions that have been imposed in an effort to contain it. The new figures confirm that Germany has been in recession (defined by two consecutive quarters of declining Gross Domestic Product).

The number of cars built in the UK over the past six months has slumped to the lowest since 1954, according to the industry's trade body. A report by the Society of Motor Manufacturers and Traders (SMMT) warns that at least 11,349 jobs have already been cut this year because of the fall in manufacturing. Car production fell by 43% year-on-year in the first half of 2020 to 381,375 cars, the weakest six months since 1954, as factories were forced to close because of the lockdown. UK car factories will only make 880,000 vehicles this year, the lowest number since the 1950s, according to a new forecast. Prior to this year the UK has produced more than a million cars a year every year since the 1980s.

Market update: Gold continues to rise as the dollar starts to lose its safe haven status

The arguments against investing in Gold as it doesn't pay interest and can be very volatile do not seem to have dissuaded investors as the price continues to rise as it passed $1,900 an ounce earlier this week. Bank of America said that $3.8bn was invested into Gold-focused funds last week, the second largest weekly inflow on record. That has helped to push up the price by 25% this year and analysts at UBS expect it to march on - by the end of September, they are forecasting gold to reach $2,000 an ounce. Gold's rise in value is in stark contrast to the fall in the value of the dollar. This is due to concerns that, following the Federal Reserve decision to keep interest rates at record lows and the growing debt burden in the US to help pay for the economic impacts of the crisis, we have seen a big sell off in value against a basket of foreign currencies in recent weeks. Goldman Sachs has warned of 'real concerns' about the dollar's status as the world's reserve currency with soaring debt and rising political and social uncertainty. The Wall Street investment bank said that investor fears about the dollar's long-term status were evident in the Gold price.

Stock markets reacted to the latest round of earnings and economic data by a sharp sell off on concerns about rising infection rates, rising unemployment and worries about the recent economic recovery stalling. Thursday saw the biggest falls in Europe in a single trading day for many weeks with the German DAX down 3.45% at the close.

Find out more

Listen **here** to our latest instalments of **Market views** with Portfolio Manager John Mullins, as he shares his latest thoughts on the main themes dominating markets recently.

Note: Data as at 30 July 2020.

Santander
Asset Management

Important Information