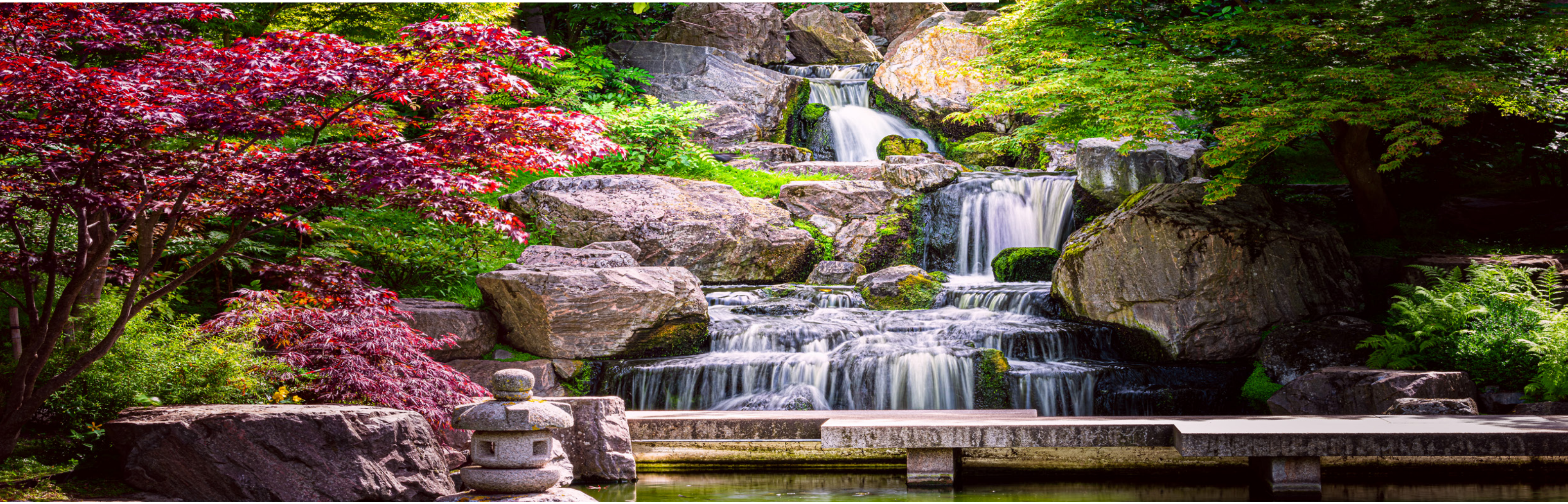
State of play



4 September 2020

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

As many return from summer holidays to much uncertainty, what might the future hold?

This year's summer months have been for many unlike any other experienced. In the shadow of the global pandemic many are returning to work or to school with enormous uncertainty painted along the road ahead. Many of us have decided on a staycation in a bid to avoid the risks of quarantine restrictions being imposed for travelling abroad. And, with the Treasury prepared to pay up to half of our bill on the Eat Out to Help Out scheme in August, many of us have taken advantage of this.

Holidaymakers returning from overseas summer holidays have been running the gauntlet on whether their destination may be added to the quarantine list before they return, therefore requiring two weeks of isolation. This has been an evolving situation, with Greece to be the latest country under the microscope, with it being added to Scotland's list, and pressure on the UK Government to follow suit for England. The UK has committed to quarantine arrivals from any country that records at least 20 COVID-19 cases per 100,000 people over a seven-day period. As at 1 September, Greece had 14 cases per 100,000 people, though concerns have been raised over an outbreak on the Island of Zante.

It has been less than two weeks since a travel corridor was re-established between Portugal and the UK, following a sustained period of falling cases in the country that put it below the critical cut off point of 20 cases per 100,000 people. As of 1 September, the UK recorded 25.0 COVID-19 cases per 100,000 people over the past fortnight while Portugal recorded 36.7, according to the European Centre for Disease and Control prompting the Foreign Office to consider reverting their decision.

Bank Holiday Monday this year fell on the last day of August which was the last chance to take advantage of the Eat Out to Help Out scheme where the Treasury pays half of the bill up to a maximum of £10 per person. The data for the last week is yet to be verified, but information released by the Treasury for the first three weeks of August confirms the most innovative support measure introduced by the Chancellor of the Exchequer, Rishi Sunak, has probably been the most successful. The primary purpose was to help lure diners back into restaurants and overcome their fear of eating inside, whilst supporting the battered hospitality sector in the process and increasing much needed footfall to retail centres. Many businesses have reported record bookings, long queues and unprecedented boosts to their beleaguered revenues, having been forced to shut for three months during the lockdown. Excluding the last week, thus far 84,000 restaurants registered with 64 million meals enjoyed by diners which is expected to cost the Treasury approximately £500m. Whilst this is small change when compared to the billions pumped into the financial system since this crisis began, it is the most targeted measure including timing to target the summer holidays. Many business owners have chosen to extend the discount beyond August to overcome the inevitable fall in bookings now that most of us are returning to work.

According to analysis of mobile phone data by the National Bureau of Economic Research (NBER) only 17% of people were back at work in the country's biggest urban centres, with London at just 13%. The London Underground saw its busiest day since 20 March on 1 September, but journeys remain 72% down on last year in a sign that many employees in the capital are continuing to work from home. Many companies including BP and John Lewis are putting plans in place to potentially sell off some of their key head office sites in Central London and reshape where and how their employees work longer term in an attempt to cut costs.

Savills, the estate agent, has forecast that office vacancies in the City of London will hit 7.2% next year, the highest since the financial crisis in 2009. Whilst the UK Government has encouraged people to return to the office many are wary of commuting on public transport, which is evident based on the number of journeys taken when compared to before the pandemic. Before the pandemic, 6% of British employees worked from home. At the peak of the lockdown restrictions, that had risen to 43% based on the report published by NBER. Nine in 10 staff who have worked from home say that they would like to continue in some form even if they are working longer hours.

Almost 70% said that they got as much or more done from home as they would in their workplace. Many companies have already offered employees the opportunity to work from home for at least part of the working week as a longer-term arrangement, which is bound to have an impact on how business models are rewritten in an attempt to improve productivity, work/life balance for employees and reduce long-term business costs. Fears that individuals would be watching daytime TV and getting little done appear way off the mark according to academics from Harvard Business School and the New York University. They analysed email and calendar data from 3.1 million workers at 21,000 companies in 16 large cities

around the world. During the 16-week period covering most government lockdowns the span of time between the first and last email sent or meeting attended in a day increased by an average of 48 minutes. Having saved time not commuting it appears that many have put in extra time working, with an increase in meetings attended, emails sent and phone calls made.

Latest economic news

Some of the weekend press focussed on media forecasts about what the November UK Budget might include. Given the unprecedented financial support since the pandemic began it will come as no surprise that whilst there are many options available to the Chancellor of the Exchequer, most of the decisions faced are likely to be tax rises in some form or another. Borrowing vast sums of money to buy the economy time during lockdown and the subsequent economic impact come at a price and have to be paid back at some point in the future. The shape of these decisions have significant financial and political implications. Deciding on which sections of society should bare the greatest burden can lead to very different outcomes depending on the route decided upon. The potential targets for any changes include, capital gains tax rises, corporation tax rises, pension tax relief reductions for the higher rate tax payers and scrapping the triple lock on pension income. Clearly all of this at present is speculation but it does point to some of the hard decisions faced by the UK Government in trying to set the right co-ordinates for the economy to emerge from this crisis sooner rather than later.

The UK Government has launched its £2bn Kickstart Scheme on 2 September, aimed at helping young people into work. Businesses have been encouraged to sign up to the new scheme - designed to create thousands of new roles across the country to help tackle the sharp rise in youth unemployment. Under the scheme employers will be able to offer state subsidised work placements for six months to those aged between 16 and 24. Youth unemployment has nearly doubled since the crisis began based on the latest data from the UK Government showing that individuals from that age group claiming universal credit since lockdown began has risen by 250,000 to 538,000. Many would argue that this number is probably much higher as a large swathe of youngsters who still live at home may not have 'signed-on' for benefits having lost their job, whether this be a part time or full time position. On top of that, more than 700,000 more young people are leaving education and entering the labour market at an extremely difficult time.

Nationwide announced the latest house price data showing a sharp rebound in the housing market since the falls during lockdown. Prices jumped 2% in July alone, which is the biggest month-on-month rise since 2004. House prices are now 3.7% higher than a year ago with the average price of a home now at £224,123 in August, up from just under £170,000 ten years ago based on the building society data. This has been a combination of the pent up demand of those looking to buy as the lockdown struck, and others incentivised to buy or move following the UK Government's temporary change in the stamp duty tax rules removing this cost for the vast majority of homebuyers until 31 March 2021. Nationwide also explained that whilst the market has bounced back from the effects of lockdown, with the

jobs incentive scheme due to expire at the end of October, many economists expect a sharp rise in unemployment in the months ahead. As I covered in my 13 August update, the success of the furlough scheme could have a dramatic impact on the economic recovery as well as the housing market.

In an attempt to adapt to the new normal following the lockdowns in the US, the Federal Reserve (Fed) has made changes to their policy on targeting inflation and responding to the jobs market. They now intend to target average inflation of 2% rather than a specific fixed goal. The US along with many other countries have viewed 2% as the optimal level of inflation to maintain a healthy economy. In practice when inflation runs hot and is well above the 2% target, the option normally is to raise interest rates to make borrowing more expensive for individuals and businesses, therefore cooling demand and bringing the inflation rate down. However, with the US in the middle of a sharp recession and whilst this may not be a new tool in the kit bag, by adapting their existing policy to apply a more flexible approach and using an average rate, it means that decision makers can allow an overshoot on inflation for a sustained period if it is felt that the condition of the economy at the time dictates this. One of the many problems facing decision makers is the under shoot of inflation over a longer time frame or even short-term deflation which can be damaging to the economic recovery. In addition, the unemployment rate in the US is currently at 10% which the Chair of the Federal Reserve, Jerome Powell, described as one of the biggest challenges. Speaking at Jackson Hole, at their annual economic symposium, Mr Powell said 'there is a particular part of the economy which involves getting people together and feeding them, flying them around the country, having them sleep in hotels, entertaining them. That part of the economy will find it very difficult to recover. That is millions of people who are going to struggle to find work. We need to stay with those people. We are looking at a long tail of probably a couple of years at least'. The changes were codified in a policy blueprint called the 'Statement on Longer-Run Goals and Monetary Policy Strategy', first adopted in 2012, that has informed the Fed's approach to interest rates and general economic growth since then. As a practical matter, the move means the Fed will be less inclined to hike interest rates when the unemployment rate falls, so long as inflation does not creep up as well. Central bank officials traditionally have believed that low unemployment leads to dangerously higher levels of inflation, and they've moved pre-emptively to head it off before it becomes very difficult to bring down.

Market update

The NASDAQ Index continues to break new record highs as technology stocks remain on a roll – having now passed 12,000 for the first time as some of the main constituents deliver strong gains. It had a bumper August rising 8.96% over the month as most stock markets rose during the holiday season, but is a far cry from the technology stocks continued boom. That being said, as of 3 September, the NASDAQ Index saw profit-taking and fell 4.96%.

Following a decision to split its shares allowing more Americans the ability to buy its stock, Apple has now passed the market capitalisation value of the FTSE 100 Index combined. As investors scrambled to buy the new lower priced shares their value now stands at $2.3tn, greater than the £1.6tn, or $2.1tn, of the FTSE 100 Index. The decision to divide its stock has had no impact on the intrinsic value of Apple's shares, but has made them more accessible to smaller investors, who pushed Apple's stock price sharply higher. Its shares rose by 3.4% on the day of the split and were up by a further 4%, closing at $134.18 on 1 September after trading above $500 before the split came into effect.

Tesla have also followed suit applying a five for one share split as their price has rocketed this year making it one of the top performers in 2020 and taking its share price beyond the reach of many investors. In addition, they have taken the opportunity to raise more capital by selling shares worth $5bn. The car maker, headed up by Elon Musk, is now valued at more than $440bn, making it the world's most valuable car company.

The video conferencing app Zoom announced record profits as revenues rose sharply when compared with last year. Video conferencing facilities remain critical in many companies to allow vast swathes of employees to work from home due to the pandemic. Profits soared to $186m, while customer growth rose 458%. Zoom's shares hit a record high on Monday, closing at $325.10, as the firm raised its annual revenue forecast by more than 30%.

Find out more

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

Note: Data as at 2 September 2020.

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