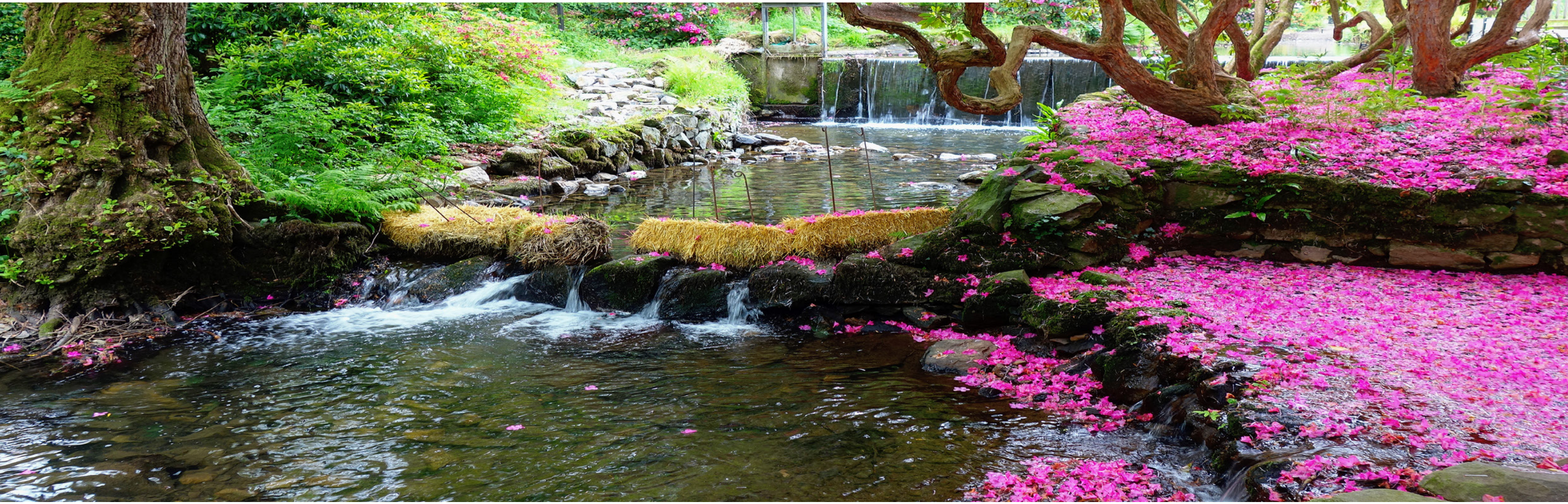
State of Play



11 September 2020

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

As daily infection rates double in just two days, the UK Government have reimposed tighter restrictions and further local lockdowns to slow COVID-19.

The COVID-19 pandemic, since it began at the end of 2019 in China, has tested most governments across the world to making and timing the right decisions to protect lives, whilst balancing the economic impacts of restrictions on our normal lives. When national lockdowns were lifted, at different speeds, countries, tried different ways to unlock their economies. All of these decisions were made against the backdrop of fears for a second wave of COVID-19 which potentially could be more devastating than the first. Many of these fears have re-emerged in the last few days in the UK, as daily infection rates nearly doubled in just two days, with 2,948 people testing positive for the virus on 7 September when compared to 1,813 on 5 September. This has prompted a lockdown in Bolton, which has the highest rate nationally and a ban coming into place on social gatherings of more than six people in England, under new measures designed to be easier to understand and enforce. The new infection rate is the highest recorded since the end of May.

Another immediate issue for the UK Government is an issue with testing laboratories restricting the capacity for an increase in testing based on demand. The Health Secretary, Matt Hancock, admitted 'there was spare capacity earlier in the summer but there have been challenges in the last couple of weeks because of an increase in demand', agreeing that 'lab capacity is what we need more of'. One aspect of the new increase in cases, which is likely to inform decisions, will be the age breakdown of positive COVID-19 cases. There has been a noticeable shift in the age group mostly affected, when compared to the start of the crisis, as two thirds of the current infections are in under-40s whilst numbers in the older age groups

have fallen significantly, according to Public Health England. Over 75% of cases in March were in people aged over 50 compared to a lower 20% in the most recent data analysis. Cases in those over 80 account for 3% of the total, down from 28% in March. The change in demographic of infections is reflected in hospital admissions - as these, along with those people admitted to intensive care and dying from the virus, remains very low. The concern now is that the younger generation could be passing the virus on to older relatives, which could result in the number of those seriously ill from catching the virus to spiral thus putting the NHS under pressure to accommodate a potential spike in admissions. The expectation now is that further restrictions on our day-to-day lives as well as more targeted lockdowns could be imposed to slow the spread of COVID-19.

In other news, the Brexit deadline is fast approaching as Prime Minister Boris Johnson announced an intention to publish new legislation that could breach elements of the withdrawal agreement. An article in the Daily Telegraph reports the Prime Minister believes the current agreement would leave Northern Ireland isolated from the rest of UK and creates legal ambiguity. Under the ratified withdrawal treaty any state-aid decisions that would affect Northern Ireland's goods market would force businesses in the province to file customs forms if they move goods to the rest of the UK mainland. The new bill will give ministers the power to outline which areas of state aid need to be reported to the European Union (EU) and which will not. This has angered the EU negotiating team, with them warning that there would be huge international repercussions if the UK broke the terms of the withdrawal agreement. Realistically, there are only eight or nine weeks left to reach a deal which can be ratified by both sides before the transition period ends on 31 December or the UK faces a 'no-deal' Brexit.

Latest economic news

Figures published by HMRC show that up to £3.5bn in furlough money could have been wrongly paid out by the UK Government. HMRC has calculated that between 5% and 10% of payments have been paid out either in error or through deliberate fraud under the jobs retention scheme. Bank of England Chief Economist Andy Haldane warned against extending the furlough scheme beyond the 31 October. He said that ending the scheme would prevent a 'necessary process of adjustment' taking place by prolonging the inevitable job losses. He said 'the Coronavirus pandemic has already delivered lasting structural change to the economy which does mean, regrettably, some businesses will probably not make it through and some jobs may well not be coming back. Keeping all those jobs on life support is in some ways prolonging the inevitable in a way that probably doesn't help either the individual or the business'.

Moving overseas, data released on US employment figures sparked concern about the economy's recovery from the COVID-19 recession. The US Labour Department announced that jobs increased by 1.3 million jobs last month after rising by 1.7 million in July. Although the unemployment rate fell to 8.4% from 10.2% in July, it still means that the world's largest economy has recovered slightly fewer than half the jobs lost during the lockdowns. Whilst the improvement in job numbers on the

face of it points to a bounce back, concerns remain about how deep the scarring may be from the economic shutdown and it could be a longer drawn out recovery than first hoped.

Market update

As last week's State of play was published, the selloff in US technology stocks had started with a significant fall by the time the market closed on Thursday 3 September as investors worried that the recent rally had pushed valuations to unsustainable levels. The NASDAQ Index had rallied by more than 70% from its March lows on hopes that technology companies would benefit from the longer term changes in spending brought about during lockdown, with consumers and businesses buying more goods and services online. Over recent days, however, sentiment has shifted dramatically and investors have begun to worry over the fragility of the recent gains. It was also revealed that Japanese technology group Softbank was reported to have invested between $30bn and $50bn in derivatives earlier in the rally, betting that technology stocks would rise, allowing the company to fix the buying price and make a significant profit. Traders said the unprecedented bet has left Softbank and the broader market exposed if investors decide to liquidate their positions. The NASDAQ Index reached an all-time high of 12,074 before the selloff, with a further fall of 465 points on Tuesday closing at 10,847, leaving it in correction territory, 10% down from the high on 2 September.

In amongst the fall in technology stocks, Tesla, the American car manufacturer, failed in their attempt to be included on the S&P 500 Index, which includes America's largest listed companies, prompting their worst ever day, closing down 21% at $330.21 per share. The shares have fallen 34% since the company split the shares in order to make the price more affordable to investors at the end of August. In addition, as I reported last week, they sold shares worth $5bn to raise capital. Other leading technology stocks also fell on Tuesday 8 September with the following losses: Amazon 4.4%, Apple 6.7%, the Google-parent Alphabet 3.7 % and Facebook 4.1% - wiping billions of dollars from their value.

On Monday the US had their annual Labour Day holiday, which for many marks the end of the summer travel season. This and other concerns about slowing demand for Oil has seen a significant fall since the end of August. The price of Brent Crude Oil has fallen 13.8% in just over a week, after a period of calm where the price traded, for the most part, within a relatively tight range over the last couple of months.

Find out more

Read our latest **A Month in the Markets** by Portfolio Manager John Mullins, for his full review and his outlook for markets as he and the rest of the Multi Asset Team continue to navigate the volatile landscape **here**.

Note: Data as at 9 September 2020.

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