State of Play

24 September 2020

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

COVID-19: UK introduces further restrictions

As infection rates doubled within a week, the UK Government, guided by their medical and science experts, have started the process of introducing further restrictions in an attempt to put the brakes on a second wave.

Yesterday (23 September) was six months to the day since Prime Minister Boris Johnson asked everyone to stay indoors and save lives. At times, it has been an almost surreal experience which has touched the lives of so many, sometimes tragically.

Following the easing of lockdowns, children have returned to school, businesses have reopened and many have returned to the office after months of working from home. Whilst the last few weeks have by no means been 'normal', some degree of normality has returned. The summer months have seen unprecedented financial support to buy business and individual's time to find answers to the challenges of a pandemic. But then, following weeks of rising infection rates and targeted local lockdowns in various parts of the UK, the Prime Minister delivered another speech explaining about the important crossroads we have reached, forcing tough decisions to be made and many more tough decisions to come.

After encouraging people to return to work (it has taken three months for people travelling to work to reach 60% of the pre-pandemic levels), the UK Government has changed direction and asked everyone who can work from home to do so. Pubs, bars and restaurants will have to close at 10pm and are restricted to table service only. For shop workers, waiters and bar staff, wearing a face covering is now mandatory. The limit on guests at weddings has reduced from 30 to 15 and plans to allow fans to return to certain sporting events have been paused. Fines for not wearing masks or following rules have increased to £200 for a first offence. The 'rule of six' now applies to indoor team sports as well as households.

Scotland's First Minister, Nicola Sturgeon, went further. She also announced a ban on meeting inside other people's homes, but up to six people from two different households can meet outdoors, including in private gardens. However, there will be no limit on the number of children under 12 who can meet or play together outdoors in Scotland.

Prime Minister Boris Johnson has expressed his reluctance to enter into another national lockdown because of the economic, medical and social impacts. The message is clear - this is seen as a last resort if people do not follow the rules. Rumours days before he gave his speech were that if a national lockdown was off the table then some form of national compromise was being considered - one option being a two-week shutdown to coincide with the school half term in October. Mrs Sturgeon raised the possibility of a two-week 'circuit breaker' with further restrictions for Scotland in October, although she said no decision had been made. She urged people not to book foreign trips during the October holiday.

Even before the Prime Minister delivered his speech, around 13.9 million people in the UK (20% of the population) have been living under local restrictions following surges in infections in those regions. Deaths from COVID-19 remain low, accounting for only 1% of deaths in England and Wales in the week to 11 September. The UK Government's Chief Scientific Adviser, Sir Patrick Vallance, has warned there could be 50,000 new COVID-19 cases a day by mid-October unless action is taken now. In addition, patient admissions into hospital with positive test results have jumped from just over 80 a day back in July to 240 a day in the last week. As before, protecting the NHS from being overwhelmed is one of the key priorities in taking the decision to act now and make changes. Most telling of all from the Prime Minister's speech, and the warnings given by his scientific and medical advisers, are that the changes made could be left in place for six months, placing everyone on notice to buckle up as it could be a long ride through this winter.

Following on from last week's update in which I discussed the latest developments in the Brexit negotiations, the UK Government have announced they are to delay the final stages of the controversial Internal Market Bill, which could breach parts of the Withdrawal Agreement, until just days before a potential no-deal Brexit. The legislation would give ministers the powers to unilaterally overrule parts of the Withdrawal Agreement on Northern Ireland that stipulate that the province must follow European customs and subsidy rules after Brexit. Ministers have indicated that the bill may not be debated in the House of

Lords until after a make or break summit with European Union (EU) leaders in mid-October. The bill is then not expected to return to the House of Commons, after committee and report stages in the House of Lords, until December at the earliest. This is being seen by the EU as negotiating tactics but ministers are keen to give negotiators as long as possible to reach an agreement over the border, even if trade talks collapse.

Latest economic news

National Savings and Investments (NS&I) is to reduce the rates on several accounts to as low as to 0.01%. According to the Building Societies Association, about £9bn was invested with NS&I in the month of July, nine times the typical amount taking the total for the financial year so far to a record £23bn. The maximum that NS&I can raise, known as its net financing target, is £35bn. It will also significantly worsen the odds on winning in its Premium Bonds prize draw.

NS&I, which is backed by the Treasury, said that it had no choice but to act because savers had put away billions more than usual during the lockdown, which left it in danger of breaching its government-mandated funding limit for the year. NS&I said yesterday that it would cut rates for its 186,000 income bonds savers from a market-leading 1.16% to 0.01%, and for its 172,000 direct saver customers from 1% to 0.15%. The alternatives for savers to invest for returns that can keep pace with inflation over the longer-term have narrowed, as the Bank of England cut base rates at the start of the current crisis and printed more money to ease the financial concerns for businesses looking to borrow. The process of 'quantitative easing' has the potential to push up prices and inflation in the next few months leaving many savers with concerns that inflation could erode the real value of their savings over time.

A number of key economic indicators and unemployment figures were released which show Europe appearing to have weathered a pandemic-induced recession better than many first feared. Having shrunk by just over 10% last quarter, the Eurozone economy is quickly regaining strength on the back of relatively resilient consumption, supported by job subsidy schemes, tax cuts and the unprecedented stimulus from the European Central Bank (ECB). The figures indicate that the stimulus, combined with fiscal support, has insulated the member economies from the worst of the recession, as households begin to spend once again and businesses return to somewhere near normal following the lifting of restrictions.

Unemployment has barely risen in the EU, compared to some other major economies, and at 7.9% has still not moved far from the more than 10-year low of 7.2% earlier this year. But, despite the better than expected news, clouds remain as infection rates in France and Spain weigh heavily on market confidence, with concerns that a repeat of the national lockdowns would have yet another huge impact on the Bloc's economic performance in the months ahead. Worries over a hard Brexit merely compound these concerns as markets appear to be pricing a more protracted economic recovery with increased volatility as lockdowns could cast a shadow over any positive news flow. Indeed, many Eurozone countries have already reintroduced travel restrictions, forcing airlines to scale back flights after a quick surge in business over the summer. Most EU governments appear keen to avoid the type of hard lockdowns seen in early spring and instead opt for localised, targeted measures that allow people to maintain ordinary activities as much as possible. The outlook is sufficiently uncertain for the ECB to make the clearest sign yet for even more stimulus, perhaps as soon as the fourth quarter.

Market update

As rumours of national lockdowns spread prior to the Prime Minister's speech on changes in the UK, and coupled with the market concerns about the spread of the virus in Europe, Monday saw one of the biggest one day falls in stocks since the crisis hit at the end of February. The FTSE 100 declined 3.4%, or 202.76 points, to 5,804.29. The Index is still down by 22.2% since the start of the pandemic sell-off on 20 February. In Europe, Germany's DAX Index fell 4.4% and France's CAC 40 lost 3.7%. Wall Street didn't emerge unscathed from the sell-off, with the S&P 500 Index down by 1.2% at the close in New York. This put the Index 3.1% below its 19 February close of 3,386.15. The NASDAQ Index continues to trade nearly 10% below its peak a couple of weeks ago following the profit taking in the correction that followed.

The concerns about the re-introduction of restrictions and lockdowns dented market confidence in the demand for oil as prices suffered their steepest slide in two weeks with Brent Crude, the international benchmark, falling by 4%, to $41.44 a barrel.

Whilst markets took a deep breath and stabilised at the time of writing (22 September), the increase in volatility reflects the nervous mood and any additional surprises or shocks could tip the fragile confidence into bearish territory in weeks ahead. The key risks remain that a second wave unchecked by governments around the world could worsen the crisis, especially if vaccine announcements do not arrive as early as expected. In addition, as we approach the US Election, which is likely to be like no other in history, markets wait to see what the outcome will be whilst operating in a world of radical uncertainty - making investment decisions even harder to call and for some even harder to watch.

Find out more

Listen **here** to our latest instalment of **Market Views** from our Portfolio Manager, John Mullins, as he shares his thoughts on the main themes dominating markets.

Note: Data as at 22 September 2020.

Important Information