State of Play

2 October 2020

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

Global COVID-19 cases and the first US Presidential Election debate

As global deaths pass a new milestone, there are concerns in the UK that the re-introduction of restrictions could suffocate the economic recovery and cause further unemployment, with the Chancellor of the Exchequer announcing a replacement to the furlough scheme (which finishes at the end of October).

This week marks the sobering milestone of a million global deaths from COVID-19, as positive tests pass 33 million and infection rates continue to spike as the predicted second wave gains momentum. Much like the first wave in the spring, countries are responding with different tactics but all in an attempt to avoid national lockdowns. Most seem to be implementing targeted local lockdowns whilst keeping large parts of the economy open, children in school and the service and hospitality sector open, albeit with restricted hours or curfews.

In the UK, Tuesday (29 September) went into the record books as the highest number of new positive infections with 7,143 being recorded in one day. There is limited value comparing this data against the spring as the level of testing has increased twenty fold and experts estimated that infection rates at the height of the pandemic in March and April were probably ten times the rates recorded. That said, although mortality rates are increasing from the lows of July and August, they are not rising at the levels they did in the spring.

The greater concern for the UK Government and their experts are increases in hospital admissions with positive test results and the numbers of patients being referred to intensive care and placed on ventilators. The national lockdown was primarily implemented to prioritise protecting the NHS and ensuring that patients who needed treatment were able to receive this. Whilst those in power will be reluctant to impose restrictions again at a national level they are aware that they may face no alternative if hospitals are overrun with COVID-19 patients as we approach the winter flu season.

In the US, Tuesday (29 September) saw the opening round of Presidential Election debates taking place in Cleveland, Ohio. At this early stage, neither President Trump nor Democratic nominee Joe Biden appear to have landed a significant blow to shift the approximate one in 10 of undecided voters to sway in their direction. The debate was very ill-tempered as both candidates bickered whilst demonstrating their personal feelings towards one another, interrupting throughout a difficult night for the well-respected moderator Chris Wallace of Fox News. Most commentators and comments posted on social media after the debate rated it as the most chaotic in election history and one that could potentially see a drop in viewers for the remaining two debates given the unpleasant spectacle on show in this first bout.

Concerns remain about this election's outcome being contested as President Trump commented during the debate 'this will not end well', prompting some commentators to conclude that this represented a real threat to the outcome. Over the past few weeks, President Trump has suggested to some voters to attend in person even if they have already sent in a postal vote to 'test' that their vote has been registered correctly. It is against the law in America to do both and he was widely criticised for encouraging people to break the law. At the moment Joe Biden remains the front runner for The White House, maintaining a significant lead in the national polls whilst the outcome of certain Senate seats in the key swing states remains too close to call. We can probably expect more fireworks during the remaining debates as both sides reflect on what went well, but perhaps they may concede that this shouting match did little to help either side exploit weaknesses in their opponent.

Latest economic news

The pent up demand in the housing market along with the stamp duty holiday, which is in place until the end of March 2021, has maintained the momentum in price rises. According to the Nationwide House Price Index, house prices rose at their fastest pace in four years in September 2020 as the market continued to defy the economic downturn.

Property values increased by 5% in the year to September 2020, which is the sharpest rise since September 2016 and larger than the 4.5% increase predicted. Nationwide said that prices rose by 0.9% between August 2020 and September 2020. This was smaller than the 2% recorded in August 2020, which was the fastest monthly growth rate for 16 years.

According to revised data from the Office for National Statistics (ONS), the economy shrank the most on record in the second quarter as output dropped 20.4% when compared to the first quarter of the year. Whilst this adjusted figure is marginally better than the numbers first estimated last month it still remains the worst of all the major economies. The Bank of England commented that whilst the recovery is faster than first thought, they remain concerned about ever increasing additional restrictions being implemented and the obvious economic impact this could have throughout the autumn and winter months. They are expecting the recovery to flatten out with the risk that if unemployment rises higher and faster than anticipated this could cause the recovery to stall.

In response to concerns that the UK may face mass unemployment when the furlough scheme finishes at the end of October, the Chancellor of the Exchequer, Rishi Sunak, announced a new Jobs Support Scheme to replace the Furlough Scheme which will start on 1 November. His plan to avoid huge job cuts will see many workers get at least 77% of their normal salaries for six months as the UK Government will subsidise the pay of employees who are working fewer than normal hours due to lower demand in their particular industry. The idea behind a more targeted approach is to protect 'viable jobs' long enough for them to be able to be retained by their employer once economic activity returns to somewhere near normal. Whilst the scheme was widely welcomed it is far less generous than the furlough safety blanket which has cost the Exchequer many billions in buying individuals and businesses time to navigate this pandemic's economic consequences. The Chancellor said it would give businesses 'the option of keeping employees in a job on shorter hours, rather than making them redundant'. Only time will tell whether enough businesses choose to utilise the scheme rather than laying off many employees in response to the drop in business.

Market update

An example of the challenge that lies ahead came when Shell announced its plans to axe up to 9,000 jobs over the next two years as it tries to cut costs and restructure itself in preparation for the shift to green energy. The firm, who employs about 83,000 people globally, said that it expected the job losses to help it to deliver annual cost savings of between $2bn to $2.5bn. In response to plunging demand and the fall in Oil prices, Shell has had to act after recording a record $18bn loss in the second quarter this year prompting it to cut its dividend for the first time since the Second World War. In 2019 it made a profit of $15bn. Oil prices had recovered in the last couple of weeks before dropping again in the early part of this week, following concerns about increasing infection rates and the possible drop in global demand after further restrictions are put in place potentially suffocating the rebound in economic activity.

Since the large corrections in markets early last week, the majority have regained some of their composure whilst trading within a relatively tight range and remaining sensitive to any news, whether it is positive or negative. Most investors await directional signs from either further economic evidence of a sustained recovery or some indication as to the outcome of the US Election. The backdrop remains very uncertain with COVID-19 announcements on further infection increases and subsequent restrictions holding back any significant momentum for now.

Find out more

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

Note: Data as at 30 September 2020.

Important Information