

State of Play



8 October 2020

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

COVID-19: The last week has seen positive tests for the US President and First Lady.

After downplaying the seriousness of the COVID-19 pandemic, President Trump, his wife and many of his closest advisers test positive for the virus.

Following the death of Justice Ruth Ginsburg, US President Donald Trump and his team were clear that they hope to appoint their pick, and provide a durable conservative majority on the bench, before the Presidential Election. To this end, the President hosted a White House event on 26 September to announce the nomination of Judge Amy Coney Barrett where many of the President's closest aides and loyal party members gathered (the majority without masks) on the White House lawn (and later inside the White House) to discuss the nomination. At the time of writing, 10 of those who gathered at the event have subsequently tested positive for the virus including the President and his wife Melania.

Once news broke that the President had tested positive for the virus, he was almost immediately flown by helicopter to Walter Reed Hospital where a series of treatments were administered, despite the White House claiming that President Trump only had mild symptoms. Initial treatment included the President being given a dose of an experimental Regeneron Pharmaceuticals antibody drug that boosts the immune system. What was unclear was whether the President had received additional oxygen, which would have indicated his condition was worse than first described. Mixed messages from his medical team, who admitted that they did not want to alarm the public, confirmed that he had indeed received oxygen as well as taking Dexamethasone, a powerful steroid that is normally given to patients who

are very sick with COVID-19 and the anti-viral drug Remdesivir, following consultation with his specialists. Some medical experts suggested that the President was not yet out of the woods as many patients with COVID-19 become better initially before some deteriorate after seven to 10 days of having the virus. As you can imagine, social media was in full swing on many conspiracy theories as to whether the President was in fact ill at all. President Trump was discharged from hospital late on Monday and returned to the White House to continue his treatment and quarantine.

In the UK, major concerns have been raised following an admission by the Health Secretary, Matt Hancock, that almost 16,000 positive results over a 10 day period were not included in the daily figures due to a system error that failed to upload the results. The databases used by Lighthouse Labs, which carry out and collate the community testing for the public and care homes, do not link directly to the systems used by Public Health England (PHE) and the upload data was from an older version of Microsoft Excel where only 65,536 rows of data can be used - meaning that additional data drops off the system, missing thousands of positive tests (2007 and later versions of Excel have the capacity for more than a million). This error has highlighted how much the UK Government rely on privately owned laboratories and universities who have their own IT systems to assist with mass testing of the public to support the test and trace strategy. The error means that approximately 40,000 individuals may have come into direct contact with those who have tested positive and should have self-isolated for two weeks following the result being received. The test and trace team started to clear the backlog over the weekend causing their telephone systems to crash. Upgrades to the out of date systems have been ordered but are expected to take months to implement.

During September many students embarked on their journeys into higher education, travelling to their chosen universities across the UK with many I'm sure looking forward to the experience of living away from home for the first time and the life experience it brings. For many, under the cloud of a pandemic, this dream is fast turning into a nightmare as the usual social life has caused super spreading outbreaks and forced universities to impose strict lockdowns and self-isolation for vast swathes of their students. Queen's University in Belfast became the latest outbreak as 160 students and staff tested positive for COVID-19 - triggering nearly 400 to self-isolate. More than 50 universities in the UK are now reported to have students or staff that have tested positive, including Northumbria University where 770 students tested positive for the virus. Many universities are now back to learning online and have limited or no face-to-face learning, causing a backlash from students and parents alike centred around the thousands of pounds worth of student debt incurred and paid out for accommodation in advance, and now wanting refunds or discounts as they are not getting what they paid for. Whilst the UK Government is sympathetic, it is focused on trying to work out the best and safest way to allow students to see their families at Christmas to avoid the further unnecessary spread of the virus.

Latest economic news

The Chancellor of the Exchequer, Rishi Sunak, in a speech to the online Conservative Party Conference, explained that the recent state intervention and financial support for the wider economy during the pandemic will have to be repaid at some point. He went on to say that hard choices lay ahead and that he was still committed to the Conservative Party's values of balancing the books, albeit without any details yet on how and by when. You can trace commitments from his predecessors all the way back to the financial crisis, when the coalition government embarked on many years of austerity in an attempt to balance the budget by the end of the decade, which were never fully achieved.

The starting point for balancing the books is to try and live within the country's means and not continue to add to the already massive debt burden. This will likely be a huge challenge in the existing economic environment and may well force the Chancellor to break his party's election manifesto when it committed to the tax triple lock of not raising Income Tax, VAT or National Insurance. He said, 'Are we going to be able to meet every single one? Our manifesto also had rules around borrowing and debt. It's safe to say those are going to be tricky to meet. Without question this is a once-in-a-century episode. We have to respond flexibly.' In addition he said 'We have a sacred responsibility to future generations to leave the public finances strong, and through careful management of our economy this Conservative Government will always balance the books.' Many now expect sharp tax rises in the near future to start the long process of repaying the borrowing used to prop up the economy during the crisis.

At the same online Conservative Party conference, the Prime Minister, Boris Johnson, committed the UK to building a greener future with the intention to derive more of our power from wind turbines. He said, 'We need to give people the chance to train for the new jobs that are being created every day — in new technologies and new ways of doing things. And there is one area where we are progressing quite literally with gale force speed and that is the green economy: the green industrial revolution that in the next 10 years will create hundreds of thousands, if not millions, of jobs. I can today announce that the UK Government has decided to become the world leader in low-cost clean power generation — cheaper than coal and gas — and we believe that in 10 years' time offshore wind will be powering every home in the country, with our target rising from 30 gigawatts to 40 gigawatts.'

New car registrations fell by 4.4% last month to 328,041, the lowest level since 1999, when the September and March registration plate change system was introduced. New car sales are down by 30% to 1.24m for the year-to-date including the national lockdown in the spring. September is normally the second biggest sales month, with the new 70 plate being introduced, however many buyers have been unable to buy a new car due to the lockdown and restrictions in place. The motor industry now expects

the equivalent of £21bn of lost sales for 2020. On a greener note, sales of new electric cars overtook those of diesel cars for the first time last month, according to the Society of Motor Manufacturers and Traders (SMMT). Diesel car sales fell leaving their share of the overall new sales market at only 18.4% in September. Electrified cars, which includes hybrid, accounted for 18.5% of the market. Sales of battery-electric vehicles rose by 184% in September, compared with the previous month, while those of plug-in hybrids rose by 139%. Only a few years ago diesel sales were over 50% of the market but sales of new diesel cars fell by 38%, and petrol car sales fell 21%.

As at 6 October, people will start to receive their state pension at the age of 66, not 65. Men and women born between 6 October 1954 and 5 April 1960 will start to receive their state pension on their 66th birthday. Anyone born after this date will not receive their state pension until their 67th birthday with the state age eventually moving to age 68. The full state pension for new recipients is worth £175.20 a week with 35 qualifying years of national insurance contributions to receive the full amount.

Market update

Last Friday (2 October) saw a further delay to the release of the new James Bond film 'No time to die'. This became the last straw for Mookie Greidinger, the CEO of Cineworld, who described his cinema chain without blockbusters to show as, 'like a grocery shop that doesn't have vegetables, fruit and meat'. He decided to close and 'moth-ball' all of the UK outlets and the US chain as well. This decision was not just a disappointment to many Bond fans but more importantly signalled the laying off of 5,500 UK employees with the option to re-join when his company reopened at some point in 2021. After yesterday's announcement, there are plenty of sceptics, particularly given Cineworld's debt burden since its \$5.8bn acquisition of Regal, the US chain in December 2018. The other large cinema chains are expected to follow suit, although probably with closure from Monday to Thursday rather than total temporary closure. Hedge funds are sitting on estimated paper profits of almost £30m after Cineworld's announcement as the UK's biggest cinema group has become the most heavily shorted company on the London Stock Exchange as investors bet on a further sell-off. Short-sellers seek to profit from falling share prices by borrowing shares in a company from other investors and then selling them, with the aim of buying them back at a lower price at a later date and returning the stock to its original owner. Cineworld shares fell by more than half at one point on Tuesday before closing down 14¼p, or 36%, at 25¼p.

Markets have remained uncertain in the last few days given the news on President Trump, but have made small gains as his prognosis improved. Investors are now waiting for further direction on the anticipated additional stimulus package in the US. Markets took heart initially from Congressional House Speaker, Nancy Pelosi, when she said that negotiations were progressing. This hope was soon extinguished as one of the first actions taken by President Trump on his arrival back at the White House from hospital was to call off the talks to find a negotiated deal. It remains unclear whether the increased likelihood of a Democratic win in the Presidential Election is impacting the markets longer-term outlook but the volatility index has increased in recent weeks on increasing concerns of a contested US Presidential Election.

**Find out
more**

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

Note: Data as at 6 October 2020.



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