

# State of Play



15 October 2020

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

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## COVID-19 latest

**Prime Minister Boris Johnson outlined the UK Government's new three tier strategy to target the resurging virus as it is revealed it ignored the advice of its scientific advisers three weeks ago deciding against another national lockdown.**

When restrictions were gradually eased during the summer months everybody was warned that a second wave was probably inevitable. After encouraging people to go out and socialise in July and August, even incentivising them to visit restaurants, the UK Government is being forced to confront once again the competing priorities of protecting lives versus people's livelihoods. The virus has returned into the wider population with infection rates growing quickly, especially in the north, and hospitals being put on red alert as admissions double within the past two weeks.

On Monday (12 October), in response to the growing infection rates in England, the Prime Minister announced a new three tier system to prevent the NHS from being overwhelmed. Regions will now be classified as either 'medium', 'high' or 'very high' with each tier having different rules and restrictions. The only region at present classified as 'very high' is the city of Liverpool, which according to the official statistics is recording over 1,000 new infections a day, but other regions in the north are currently set to follow suit in the next few days and weeks.

The additional restrictions under this tier mean that it is illegal for anyone to mix with other households, indoors or outdoors, and all bars and pubs that do not serve food, as well as gyms will close for the next 28 days subject to a further extension based on future reviews. Schools and Universities are to

remain open to protect students' education. If a region is deemed as 'high', then no households can mix indoors but the rule of six applies outdoors. Pubs and restaurants can remain open but can only serve the same household and are still subject to the 10pm curfew.

The First Minister of Scotland, Nicola Sturgeon, announced that following the 'circuit breaker' currently being implemented she would assess Scotland's own version of a tier system for when this finishes in just over two weeks' time. Northern Ireland and Wales will make their own assessments in the coming days. Although speculated, nothing has yet been announced with regard to changing the approach to protect the vulnerable (shielding) that was put in place back in March.

On the same day the Prime Minister explained the new three tier system it was revealed the UK Government's top science team (SAGE – Scientific Advisory Group for Emergencies) had provided very stark warnings three weeks ago as it predicted that a series of measures such as banning all household mixing, closing all pubs and restaurants, moving universities online as well as a short 'circuit-breaker' lockdown would be needed to have any chance of controlling the epidemic. Professor Chris Whitty, the Chief Medical Officer for England, admitted in the press conference that even these new measures announced by the UK Government would not be enough to slow the virus sufficiently and that no doubt more would need to be done. He explained that other regions would need to be placed under the 'very high' tier and a short two week 'circuit breaker' may need to be implemented to avoid the NHS buckling under the strain.

The reality for the Prime Minister and his cabinet is that their options seem to be narrowing by the day. Faced with trying to avoid the economic impact caused by the pandemic, and with the infection rate spiking so significantly in certain areas, the inevitable surge in hospital admissions will no doubt force their hand in the next few weeks regardless of the financial hardship further restrictions may cause. The trade-off between saving lives and protecting livelihoods is a dilemma anyone in power would never expect to face, but after the most challenging medical emergency in over 100 years, that is exactly what confronts those in charge. Guided by experts but counselled by realities, politicians run the gauntlet of competing public priorities with every decision often selected as the 'best worst option' available. This crisis will no doubt continue until success on vaccine development reaches a stage where production and distribution are at last a positive option available to decision makers.

## US Election update

Given the importance of Florida to the re-election chances of President Trump, it was no surprise that his first appearance on the campaign trail since testing positive for COVID-19 was at a rally in Sanford, just a short distance from Orlando. On Sunday (11 October) his personal doctor said he was no longer a COVID-19 transmission risk to others and disclosed on Monday that his most recent tests were negative over consecutive days, although he did not give the dates of these tests. Florida, with 29 votes in the Electoral College, is one of the biggest states up for grabs, with only California and Texas having more. In order for President Trump to have any realistic chance on 3 November he needs to win Florida, a state he narrowly won in 2016. He is a lifelong New Yorker, but made

himself a Florida resident in September last year.

US presidents are not elected directly. Instead, candidates compete to win a majority of votes in an Electoral College - needing at least 270 out of the total of 538 available. Every state has a set number of these votes which is equal to the number of representatives it places in the US Congress after the election results are declared. It is possible for a candidate to win the most votes nationally (popular vote) but still fall short of the 270 needed and thus lose the election (as happened to Hillary Clinton in 2016).

In front of a crowd of several thousand, mostly not wearing face coverings, President Trump was back to his usual routine of listing his successes and questioning his rival Joe Biden's mental acumen. Referring to his own recovery from COVID-19, he said at one point: 'They say I'm immune - I feel so powerful. I'll walk in there and kiss everyone. I'll kiss the guys and the beautiful women, I'll give you a big, fat kiss'. However, despite the enthusiasm shown at the rally, many Florida residents have been directly affected by this crisis with, at the time of writing, over 15,000 deaths in the state and the President's approach to COVID-19 may yet seal his fate in this crucial political battleground. Millions of dollars of advertising targeted in Florida alone are unlikely to provide the necessary shift in public opinion come Election Day.

## Latest economic news

As I have reflected in previous updates, the future economic recovery from this pandemic will likely hinge on the impact of rising unemployment and the ability of the labour market to provide alternatives for those individuals unfortunate enough to have lost their job. Whilst retraining is being mooted as a large part of the solution for many who work in badly affected sectors, like hospitality, retail, travel and tourism, all of this takes time.

This week the Office for National Statistics (ONS) announced that the unemployment rate had risen to 4.5% in the three months to August, compared with 4.1% in the previous quarter. An estimated 1.5 million people were unemployed between June and August, while redundancies over the same three months totalled 227,000. The number claiming work related benefits, meanwhile, hit 2.7 million in September which is an increase of 1.5 million since the beginning of the crisis in March. Payroll numbers stabilised but were still 629,000 lower than in March. The younger age group of 16-24 year olds have been more affected than any other with 239,000 having lost their jobs since February. The jobless rate for that age group has risen from 10.5% to 13.1%.

The data is expected to get much worse after the furlough scheme concludes at the end of this month and is then replaced with the less generous support package announced by the Chancellor of the Exchequer Rishi Sunak last week. Mr Sunak was at the news briefing alongside Prime Minister Boris Johnson, where he outlined the additional support for those businesses forced to close in a region classified as 'very high' under the new tier system. The UK Government has offered to pay two thirds of workers' wages if their employer is affected.

## Market update

At the time of writing Apple launched their new iPhone 12 which, according to the company, is 11% thinner, 15% smaller, and 16% lighter than the iPhone 11. This 5G ready model is targeted at the expanding 5G market which is already well advanced in China, its second biggest market, and is due to be completed in the US, its largest market, by the end of 2021. Apple's share price has been very strong over the last week - leading to a rebound in the technology led NASDAQ Index since profit taking took place at the start of September. The index is up 47.4% over the last 12 months as many of the consequences of locking down large parts of the global economy have in the main benefited the technology sector.

Markets remain mindful of the ever increasing infection rates but lean on the expected additional fiscal stimulus package that is being negotiated between the Republicans and Democrats. Regardless of who wins in November it is expected that further fiscal stimulus will be agreed in the US and elsewhere, supporting investors to continue to take investment risk and keep 'a foot in the game'. Consensus across all markets is that they expect it is a question of when, and not if a successful vaccine is likely to be announced in the next few months, offering economies around the world the keys to the exit from this global pandemic.

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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 13 October 2020.



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