

# State of Play



**22 October 2020**

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

## COVID-19 latest

**Devolved power was always intended as an opportunity to allow regional leaders to tailor national decisions to their specific regional needs – it wasn't expected to create competing views on how to approach restrictions in the midst of a pandemic.**

Devolution is the statutory delegation of powers from the central government to govern at a regional or local level and is a form of administrative decentralisation. The current incarnation dates back to the late 1990s when voters chose to create a Scottish Parliament and a National Assembly for Wales whilst Northern Irish devolution was a key element of the Belfast (Good Friday) Agreement (and was itself supported in a 1998 referendum). In England, the new style Mayor of London was elected in 2000 whilst further extensions to devolution came in May 2017, when six new Metro Mayors were elected across the UK.

Already during this crisis Northern Ireland, Wales and Scotland, led by First Minister Nicola Sturgeon, have made decisions about restrictions which were different to England (governed by Westminster). These differing opinions continued with Wales announcing a 17 day 'circuit-breaker' starting tomorrow (23 October). This is hot on the heels of Northern Ireland announcing a four week targeted lockdown following a sharp rise in infections to nearly 1,000 cases per 100,000 of population, the highest in the UK by some distance. Scotland had already begun a two week 'circuit-breaker' using the half term for schools as a trigger to start a concerted effort to wrestle back control of the pandemic.

Within English borders this friction manifested itself in Mayor of Greater Manchester, Andy Burnham, resisting the request to place the 2.8 million residents under his metro city powers into the 'very high' Tier 3 unless the UK Government was prepared to improve the financial support for the businesses directly impacted. The UK Government, frustrated by this resistance, imposed a deadline to reach a settlement by noon on Tuesday (20 October) or it would press ahead with the move to Tier 3 regardless.

The deadline passed with no announcement on either side thus placing the city in a state of flux. Mayor Andy Burnham said that the UK Government had walked away without an agreement (it was revealed that the Mayor was asking for a minimum of £65m but the UK Government stopped short at £60m). Prime Minister Boris Johnson then announced in a press conference at 5pm on Tuesday (20 October) that Greater Manchester would indeed be moved into Tier 3 (Very High) with a base financial package similar to other regions in Tier 3 and the UK Government left the door open to reach an agreement. This means pubs and bars will close unless they are serving substantial meals and he strongly advised people against travel into and out of the area. These new measures will come into force tomorrow (23 October) at midnight.

Rapid COVID-19 tests have now begun in airports, in order to help people travelling to destinations where proof of a negative result is required on arrival, the first being passengers flying from Heathrow to Hong Kong and Italy from Tuesday (20 October). They are required to arrive an hour before they would normally and pay £80 for the test with the result guaranteed within an hour. A growing number of countries have placed the UK in the 'at risk' category, meaning travellers from the UK face more restrictions on arrival. The rapid saliva swab, which is now available at Heathrow Terminals 2 and 5, is known as a Lamp (Loop-Mediated Isothermal Amplification) test. A Lamp test is quicker than the PCR test, which is widely used in the NHS, because the sample does not need to be sent to a laboratory and is considered to be much better than another rapid option - the antigen test. Collinson's Chief Executive David Evans told the BBC that 'health screening' was quickly becoming another stage of the airport experience and maintaining testing would help give people confidence to travel, because flights would be 'COVID-secure'.

## Latest on Brexit

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Downing Street and the European Union (EU) moved a step closer to resuming formal Brexit talks after Brussels made a concession to try to break the four-day impasse after the Prime Minister walked out on negotiations on the grounds that he felt the EU were not prepared to compromise. Brexit Chief Negotiator Michel Barnier told his UK counterpart, Lord Frost, in a phone call that the EU was willing to 'intensify talks in London this week, on all subjects and based on legal texts'. Brussels has previously refused to begin work on a joint legal text of a deal before all areas had been agreed in principle triggering the Prime Minister to call off the talks. Many areas of disagreement remain, in particular fishing rights driven by President Emmanuel Macron of France. The clock is ticking closer to a point where agreeing a deal and implementing this in time for the end of the year conclusion of the transition period will become increasingly difficult.

## US Election Update

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With two weeks until Election Day, the last Presidential Debate is due to take place today (22 October) following the heated arguments and interruptions from the first run out. President Donald Trump then refused to attend a second debate, forcing broadcasters to host two separate shows thousands of miles apart but airing them at the same time. In an attempt to avoid the horrors of Florida, show broadcasters have confirmed that they intend to mute the microphones of each candidate when the other is answering the host's questions. The dust has now settled from the first outing in which polls indicate President Trump's perceived aggressive and interruptive manner didn't play well with suburban women, who are a key voting demographic in this campaign.

Based on the latest national polling and the numbers showing in the key swing states, the Presidential Election is Joe Biden's to lose. Many caution against taking this outcome for granted as many of the swing states are too close to call despite many election experts claiming that Joe Biden is more than 80% probable to win the Presidency. Hillary Clinton was also well ahead in the polls two weeks before in 2016 and despite winning the popular vote, key swing states propelled President Donald Trump across the winning line of more than 270 Electoral College Votes.

Based on Joe Biden's current poll margins it is unlikely that we could see a result similar to the 2016 misfire, but pollsters have some new obstacles to take into account given the unusual circumstances this election is being held under. Many Americans are planning to vote by mail for the first time - with Republicans already promising to aggressively challenge these ballots to prevent what they say could be the potential for widespread fraud. The Democrats claim this is an effort at voter suppression. If voters fill out their forms incorrectly or do not follow proper procedure, it could lead to otherwise valid ballots being discarded. Investors will no doubt watch the last debate with great interest, praying for a more dignified showing and keeping their fingers crossed that no matter what the result is on 3 November that the election is not contested - which could throw more uncertainty into an already extraordinary year.

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## Latest economic news

The Governor of the Bank of England Andrew Bailey has warned that the UK faces an uphill struggle following the arrival of a second wave of the pandemic. The Governor told an online event on Sunday (18 October) that he expected output at the end of the third quarter to be 10% lower than the end of 2019. The UK economy shrank by 20% in the three months to June as it battled through the national lockdown and experienced the biggest fall of any large advanced economy. He also said 'the UK faces an unprecedented level of economic uncertainty. Of course, that is heightened now by the return of COVID-19 and the risks remain very heavily skewed towards the downside'.

The Bank of England also warned that unemployment could climb higher than current forecasts, as the pandemic continues to stall the economic recovery. Gertjan Vlieghe, a member of the Bank's Monetary Policy Committee, commented that the jobless rate could rise above the Bank's original estimated peak of 7.5%. In a speech on Tuesday, he said not all of the remaining two

million on furlough are likely to retain their jobs: 'the risks are skewed towards even larger job losses. Even though the headline rate of unemployment has moved up only moderately so far, evaluating unemployment accurately during the pandemic is a phenomenal challenge'. At the height of the pandemic earlier this year more than 30% of the private sector workforce was on furlough. Whilst many have returned to their jobs, a significant proportion are under threat as companies re-evaluate the market environment and take drastic measures to cut costs and position their businesses for the challenges ahead. Figures released last week showed the unemployment rate hit 4.5% - the highest in more than three years, while redundancies rose to their highest level since 2009.

## Market update

The US Government has filed charges against Google, in an anti-trust lawsuit accusing the company of abusing its dominance to protect a monopoly over searches and online advertising. This lawsuit is the biggest brought by US regulators against a major technology company in many years and follows more than a year of investigation into the practices of 'Big Tech' both in the US and around the world. Google's parent company Alphabet is already appealing against large fines imposed by the EU in the last three years. It received a €2.4bn fine over shopping results in 2017, a €4.3bn fine over claims it used Android software to unfairly promote its own apps in 2018 and a €1.5bn fine for blocking adverts from rival search engines in 2019.

Wall Street's main indices started the week falling on the back of uncertainties about a resolution to fiscal stimulus. Following progress made between House of Representatives Speaker Nancy Pelosi and US Treasury Secretary Steven Mnuchin, it rebounded on Tuesday (20 October) as investors hoped for an agreement, with Senate Republicans preparing to vote on a bill to help small businesses badly affected by the pandemic. Markets remain nervous as Election Day approaches, with the prospects of a potential Joe Biden win weighing on investors' minds as well as the concern of the possibility of a contested election. However, the mood has been lifted somewhat as the third-quarter earnings season has gathered momentum with 86% of the 50 S&P 500 stocks that have reported results so far exceeding earnings expectations, according to Refinitiv IBES data.

The latest economic figures released for China confirm that their economy has recovered quickly from the pandemic and subsequent winter lockdowns reflected in the strength of the Chinese stock market. The CSI China Securities 300 Index is up over 28% over the last six months - higher than even the NASDAQ Index over the same period.

**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 20 October 2020.



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