State of Play

13 May 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update. As the Queen attends her 67th State Opening of Parliament, the UK Government gives the go ahead for the penultimate stage of unlocking.

The Queen's Speech

This week the Queen officially reopened Parliament and outlined the UK Government's priorities for the year ahead in a House of Lords speech which highlighted 31 laws that ministers intend to pass in the coming year, some of which have been carried forward from the previous agenda. In amongst the proposals were measures to address a post-Brexit world in which Prime Minister Boris Johnson promised to start the job of 'levelling up' the economy with bills on electoral reform, immigration and house planning laws.

Within the speech, the Queen said the UK Government would bring forward measures to reform the operation of the social care system in England but did not commit the UK Government to introducing a specific bill to overhaul how the sector is funded. Discussions appear to be ongoing about the potential cost of the reform, which could run into the billions. The Prime Minister has come under fire for a lack of specifics on social care, given that when he first took office nearly two years ago he made promises to tackle the challenge of an ageing population with a plan that was ready to go. The lack of a specific new bill in the speech has been criticised by opposition politicians and care groups alike.

Tax breaks for employers based in eight freeports to be set up in England later this year will be included in a National Insurance Contributions Bill. Teesside, London Gateway, Liverpool City Region, Humber, Felixstowe, Southampton, Plymouth, and East Midlands airport will be the sites designed to encourage trade with the rest of the world and with the aim of helping to create jobs, growth, and innovation. To address the skills gap the UK Government will be introducing government-funded training for all adults lacking A-levels or their equivalent. The bill will also extend the student loan system to those who want to study at local further education colleges. All adults will be entitled to four years' worth of loans for training or education that can be taken at any point in their life.

The State Opening of Parliament

The State Opening of Parliament is a royal ceremony established in the late fourteenth century which marks the start of the parliamentary year. It is customary for the Sovereign to be present at the ceremony which serves as a symbolic reminder of the unity of the three constituent parts of Parliament - the Sovereign, the House of Lords and the House of Commons.

The penultimate stage in the return to normality

The UK Government gave the go ahead for the step down to COVID-19 level 3 which allows for the loosening of social restrictions, thus triggering a raft of social normalities to resume next week. Pubs and restaurants will be able to serve up to six people from two households indoors, overnight stays will be allowed as well as hotels, cinemas and theatres reopening. Group exercise along with spectators at sporting events (both in and outdoors) will also be reintroduced. Secondary school children will not need to wear masks in school and universities can return to face-to-face teaching. The roadmap is nearing the penultimate stage with the final step in the plan due to end on 21 June with all social restrictions scheduled to end.

COVID-19 infections are at their lowest level since July 2020 and on 10 May England reported zero COVID-19 related deaths for the first time in 14 months. Data shows that the vaccination roll out is having a positive impact with death rates reduced by 80% after the first injection and 97% after the final dose. There are similarly impressive reductions in both suffering symptoms if infected and the need for hospital treatment. In the UK over 35 million people have had their first jab and 18 million have been fully inoculated. This means that although the Scientific Advisory Group for Emergencies (SAGE) predicts a third wave will occur follow the loosening of restrictions, it is likely to be significantly smaller than previous waves with the worst-case scenario predicting hospitalisations at half of the January 2021 high. Although SAGE predict the 'R' rate will edge above one, the infections will be in the younger age groups that are not yet vaccinated and have a much smaller chance of suffering complications or dying from COVID-19.

Having seen how reluctant the public were to resume normality after the first lockdown, how will consumers react this time around given the safety blanket of vaccinations? Last time the slow change in behaviour prompted the UK Government to incentivise people to start socialising by introducing the 'Eat Out to Help Out' scheme. Due to the percentage of the population now vaccinated, expectations are that this time will be different.

Whilst nobody can be certain about what the shape of our economy will look like in the future, almost all can agree that the pandemic has changed our habits and behaviours: the move to online shopping, virtual business meetings and working from home to name but a few. Some of the adaptations may be permanent with others lingering long into the future until society has more confidence in our ability to vaccinate and prepare more effectively for future crises. This journey will affect different sectors in different ways therefore impacting investment returns not just now but long into the future, whatever this may look like.

UK economy copes better with latest lockdown

According to the Office for National Statistics (ONS) the UK economy shrank 1.5% in the first three months of 2021, which was more positive than expected. This is in stark contrast to the 20% contraction in the first lockdown as the nation came to a standstill trying to tackle the pandemic. A year on, businesses have learnt to adapt to home working and virtual meetings whilst manufacturing and construction sites have remained open, albeit with strict working conditions in place. The economy contracted by 2.5% in January and then grew by 0.7% in February, followed by 2.1% in March, which was higher than the 1.3% forecast by economists. It was also the fastest monthly growth rate since August last year when the summer reopening caused the economy to rebound.

The ONS explained that the UK economy was still 8.7% smaller than its pre-pandemic size but it is expected to grow rapidly over the coming months, as lockdown restrictions are eased over the next few weeks. The Bank of England is forecasting annual growth of 7.25%, the fastest growth rate since 1941, and expects the economy to have recovered its pandemic losses by the end of the year. Chancellor of the Exchequer, Rishi Sunak, said that the latest figures were 'a promising sign of things to come'.

Market update

The Bureau of Labor Statistics said the US Consumer Price Index rose 4.2% on the year, the highest annual rate of inflation since the eve of the financial crisis in 2008. April witnessed surging prices for second-hand cars and trucks which accounted for around one-third of the monthly increase of 0.8%. The market responded to the figures by pricing in a first rate-hike from the Federal Reserve before the end of next year, rather than in 2023 as the central bank is currently guiding.

Stock markets around the world endured their worst day in months on 11 May as the shadow of inflation concerns re-emerged to trigger a sell-off. Fears remain that as economies reopen the combination of pent up demand, lack of supply and consumers starting to spend the enormous savings pot accumulated during the lockdowns will drive prices higher and well above the central bank's targets. The unprecedented support offered by governments and central banks throughout the pandemic has helped to lift markets to record highs and investors are wary of what might happen when it is diluted. Technology stocks were hit hardest by concerns that a lasting climb in prices will force central banks to taper their vast economic support packages. Although the Federal Reserve has repeatedly insisted that inflation's ascent over the coming months will be 'transitory', Jerome Powell, the Federal Reserve Chairman, continues to assure the market he is not yet even 'thinking about thinking' of raising interest rates. As the rout spread through Asia and Europe, investors remain fearful that big spikes in inflation will prompt central banks to change course, tighten their policies and hike rates. Technology companies and other 'growth' stocks who attract investment generally because of what they could become, rather than what they are today, are particularly sensitive to rising inflation because it reduces the present value of future cash flows.

Find out more!

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Note: Data as at 12 May 2021.

Important Information