State of Play

29 July 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update. Given the third wave was forecast to reach its peak in mid-August scientists are stumped by the recent sustained drop in new infections.

Third wave stutters

The agreed consensus between the experts guiding the UK Government was that the current third wave of COVID-19 would probably not peak until mid-August. However, just over a week since the legal restrictions were lifted in England new infection cases have halved in just nine days. It is considered too early to judge the specific reasons for this, especially as there is little confidence that the fall in numbers will continue and the school holidays have only just begun to have any real effect on the 'R' number (the rate of infection – above one means the virus is spreading). Some scientists have suggested a combination of reasons for the drop in those testing positive, but most cite the end of the Euro's football as the main driver.

During the tournament many gathered in pubs and in each other's homes to watch the drama unfold making it easier for the virus to spread. When you compare Scotland with England's results, there is a direct correlation between Scotland being knocked out of the competition on 22 June and a decline in infections just over two weeks later. Scotland hit the most recent peak on 30 June with 3,920 positive cases but have been falling ever since. As we know, England successfully reached the final played on 11 July nearly three weeks later, with the high point of the third wave in England coming on 15 July with just over 56,000 people testing positive. Ever since the positive results have been falling.

One thing scientists do agree on is the impact of COVID-19 vaccines. When you compare the different stages of this virus there is a stark contrast between the data. Whilst infection rates have followed similar paths for each wave, those being admitted to hospital and then needing to stay more than 24 hours for treatment or being placed on ventilators is very different. In the deadly second wave we experienced over the winter months when infection rates peaked on 8 January, ten days later following the usual lag between infections and hospitalisations, nearly 40,000 were in hospitals. Whilst those being admitted to hospitals is still rising, the numbers in hospital has reached just over 5,000 (as at 22 July) which is 88% less in comparison to January. The latest daily admissions into hospital is very high at 922 (as at 21 July), but because most stay only briefly, the accumulation of admissions is not happening like it did in January as each patients stay tends to be brief.

Nobody can be sure what the next few weeks will be like but those in charge will be keeping their fingers crossed that the drop in numbers despite the easing of restrictions simply means that the vaccines are now finally starting to beat the virus on the road to normality.

Britain forecast to be the world's fastest growing advanced economy this year

According to the International Monetary Fund (IMF) Britain is set to outstrip most of the other G7 nations (world's most advanced economies) this year by growing at the 7%, the same as the US. The reasons given by the IMF is the speed of the vaccination programme and the financial support package being the most generous in the world except for the US, affording the opportunity to reopen sooner having protected millions of jobs during the crisis.

In the latest forecasts, the IMF revised up its forecast, from the 5.3% predicted in April, bringing forward some of the growth they expected to happen in 2022 to this year, although next year Britain is still set to grow at 4.8% (behind only the US in the G7). Chancellor of the Exchequer, Rishi Sunak, welcomed the upgrade by saying, 'there are positive signs that our economy is rebounding faster than initially expected, with the IMF forecasting the UK to have the joint highest growth rate in 2021 among the G7 economies. That said, we still face challenges ahead as a result of the impact of the pandemic, which is why we remain focused on protecting and creating as many jobs as possible'.

Gita Gopinath, the IMF's Chief Economist, said 'the key differentiators in the latest forecast were vaccine availability and policy support. Britain's vaccine rollout has been faster than expected, which has allowed the economy to reopen comprehensively, and discretionary state support has been more generous than any other G7 country bar the US'. Gopinath stressed that recoveries cannot be assured anywhere 'until the pandemic is beaten back globally'. The IMF said that every country needs to have vaccinated 40% of its population this year, which will require rich countries to share one billion doses, twice the commitment already made by the G7 thus far.

Governments have committed $16.5tr (US dollar) in total to fight the pandemic since the first lockdowns, $4.6tr of which advanced economies have yet to spend. As a result, global government debt has rocketed to a record 100% of gross domestic product (GDP), and 123% among advanced economies. The UK is slightly better placed than peers, with government debt at 107% of GDP. According to the IMF, central banks should not respond to rising inflation as it said it would prove temporary, but they said 'they should be prepared to move quickly' if necessary.

Market update

Investment markets continue to trade within a very tight range, as they await more clues from company earnings or economic data indicators. Inflation and economic recovery continue to shadow investors as many break up for their holidays and as August, which is a traditionally quieter month because of the summer break, looms.

Many investors with large allocations to government and corporate bonds had a very difficult first quarter this year as yields rose sharply in response to inflation fears. These fears appear to be unwarranted as markets now appear to be more comfortable with rising prices as a temporary factor as yields have fallen by 40% from their recent highs on 10-year UK Government bonds and 30% on 10-year US Treasuries.

Find out more!

Listen **here** to our latest Market Views from Stefano Amato, Head of Multi-Asset Solutions UK, as he shares his thoughts on the main themes dominating markets.

Note: Data as at 27 July 2021.

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