

Coronavirus - Covid 19 - Update

European troubles and the challenge of exiting lockdown

May 12th, 2020

Post the market low on March 23rd, there has been a solid rally in global stocks with markets regaining approximately half of their losses to the end of April, though that rebound has been less pronounced in the UK. In the last two weeks, we have witnessed a reality check as the severity of some of the emerging economic data becomes apparent. The April market rally was of course not surprising given the severity of the losses experienced in February and March, where selling was indiscriminate and precipitous.

I now remain cautious on the short-term market outlook, and it has not been surprising to see markets stall over the past fortnight as the economic news currently emerging is jaw droppingly bad. There are also some worryingly nationalistic tones emerging around the world and most notably last week in Europe where the German Constitutional Court announced that the German Central Bank - the Bundesbank - may no longer participate in ECB purchases until the Governing Council can confirm that monetary policy objectives passed are not disproportional.

German national tolerance of weaker European states and their levels of debt is firmly on the radar and this is clearly a worrying development for the future prosperity of the union.



There will almost certainly be unequal outcomes between Germany and the periphery after this event and this is borne out through Purchasing Managers Index numbers (PMIs), which are an indication of confidence in underlying countries. Germany has much better numbers than France, Italy and Spain - all of which are appalling. It is surprising though given Germany's wide industrial base.

European cracks are appearing

Here in the UK, we have also seen some truly dreadful numbers this week, with Andrew Bailey, the new Governor of the Bank of England, confirming yesterday that expectations for UK GDP this year are now negative 14%, with unemployment likely to reach 9%. Last month's car registrations fell 97% and to put that in context, that reflects the lowest number of cars sold in the UK since 1946.

In addition, there was confirmation that 80% of British businesses have applied for the Job retention scheme and of those, 95% are temporarily closed. We now clearly need to get back to work quickly, to restore prosperity and most importantly confidence, to avoid the further economic disasters which lie ahead if this event becomes too protracted. Governments around the world now have an unenviable task of directing that process and it is not surprising that Boris's announcement at the weekend, was received with mixed reviews.



Trump too is directing an expeditious return to work, while both death rates and numbers infected in the US continue to rise. This appears a risky strategy, but with over 30 million now unemployed in the US, a change in direction of travel is required to appease a populous much less tolerant of being told what to do.

Here in the UK, I sense another problem in remaining in lock down much longer. We have spent the last decade educating people that being dependent on state aid is not something to aspire to. It was clear that over the previous three decades, an element of society had developed a view that getting as much out of benefits at the expense of hard working taxpayers was OK and almost a game. There is some evidence now that being paid 80% of your salary for sitting at home doing nothing is OK with many. After all, it's quite hard to spend the 20% of salary you are not being paid while sitting at home banned from restaurants and going out.

This genuinely needs addressing fast and the extension of the furlough plan, in my view, should not be extended beyond October. We will all need to realise that on the other side of this pandemic we are going to have to manage our lives with some additional risk. Social distancing will never work in planes, trains and automobiles, so if we want to carry on using them, there will be risk.

How long for the vaccine?



Finding a vaccine is clearly key to improving the risk mitigation strategy, though that remains probably at least six to nine months out at best. Over 100 potential vaccines are currently being developed by scientists around the world. Better information on the virus will also help and allow individuals to make more informed decisions about how they conduct their lives.

The virus has now killed 300,000 people in the world with 4.3 million infections. These numbers remain very low on a global basis and in the UK the current ONS stats suggest that 0.27% of the population are currently positive with Covid-19 - that's roughly one in 400 people.

91% of coronavirus deaths have been with people with serious underlying medical conditions, 88% have been people over 65 and the number of people aged under 50 is so small it isn't represented on the charts. Interestingly, over 25% of deaths have been those with diabetes.

The reality of course is that this virus may never go away, as the WHO have suggested this week. It may just become another endemic virus that remains in our communities.

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