rosan helmsley
WEALTH MANAGEMENT

Coronavirus update

August 31st, 2020

It is now five months since the stock market lows of March 23rd and an appropriate time to reflect on events since and the likely direction of travel ahead.

Current covid stats

There have now been 24.3 million covid cases around the world with 827,000 deaths and 281,581 new cases yesterday. The Americas have the largest number of cases at 12.8 million. In the UK, we had 1,276 new cases yesterday and 9 deaths, with cases trending up and deaths down over the last couple of weeks.

In the UK we have had 41,501 deaths thus far. The virus remains one to avoid for the over 65s, those that are obese, diabetic or with pre-existing medical conditions. For everyone else, 5 months of evidence and extensive data confirms that there is little to worry about, with almost no risk at all to children. Indeed, in many cases it is clear that those who have had the virus have not even been aware of it - a differentiating factor from flu for example.

And yet, there remains a fear among many that is unfounded and proving to be a genuine threat to our return to economic prosperity and wellbeing in the months and years ahead if not addressed. Government of course have the continuing conflicted dilemma of the health of our vulnerable citizens on the one hand and creating economic conditions that can place UK finances back on an even keel on the other. At the same time, it is clear that second waves are gathering pace and the highly infectious nature of the virus is likely to continue that trend in the weeks ahead as we move towards winter and closer contact indoors.

A further problem for Boris Johnson and team is that the UK has a higher excess deaths figure than anywhere except the US - this is the number of excess deaths per thousand people that might be recorded in a 'normal' year.

On the economic front, the UK has also suffered some of the worst setbacks of any economy through the covid period with our second quarter GDP contracting over 20% - worse than any other Euro area country. The US, for context, contracted 8% in Q2.

Media commentary has focussed on how working from home has been fine and that structural change is a foot. Many large companies (including asset managers in our own industry such as Aberdeen Standard and Schroders) have announced in recent weeks that they will not be seeing workers return to work until next year. In my view, these decisions are being made more out of a fear of the potential legal implications of large numbers of staff travelling on our outdated and unclean public transport systems and becoming infected, than out of a belief that the commercial side of life can continue to function productively with a majority of personnel working remotely.

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Productivity has categorically been much lower - the economic stats prove it and I have seen it in our own organisation, where despite broadband coverage in the UK being the most extensive anywhere in Europe, the quality of that coverage is extremely poor with fibre penetration among the lowest in Europe. It is no good suggesting working from home works, when it takes twice as long to do anything and then meeting with colleagues using tech becomes stressful because a zoom connection keeps breaking and home IT is unable to support the combined simultaneous demands of the Netflix connection from another part of the house!

This brings into focus some of the problems covid is presenting for multiple areas of infrastructure through the UK. Infrastructure spend and deployment, whether on 5G, fibre or moving people around more efficiently and hygienically through upgrading rail and public transport will be crucial to supporting a new normal, if indeed working habits are to change.

So frustrating to see this week that the Crossrail project has been hit by further delays and might need an additional £450 million in funding. Crossrail was due to open in 2018 but TFL announced last week that the opening date will now shift from summer 2021 to summer 2022, partly due to the coronavirus bringing the project to a standstill in the spring. Staff levels remain 50% below normal as a result of social distancing measures.

Large infrastructure spends are however going to come into sharp focus against Britain's rapidly deteriorating fiscal position. I have written in previous coronavirus editions about the future challenges for our country given our rising debt burden. This week marked a significant milestone - government debt reached an unprecedented £2 trillion - broadly the same size as our entire economy (and marginally more than the value of Apple incidentally!) The government has managed to balance the books in only one year since Rosan Helmsley started trading almost 20 years ago.

In the first four months of this year, Rishi Sunak has had to borrow over £150 billion - for context more that Gordon Brown ran in the wake of the 2008/2009 financial crisis and almost twice as much as Jeremy Corbyn had proposed spending in his 2019 manifesto. Servicing current government debt is costing £47 billion per annum while interest rates are close to zero. When interest rates rise, Sunak will almost certainly face the mother and father of a fiscal crisis. We must hope that Sunak, being one of a very few government ministers with proper commercial experience, can tackle this huge problem with context and insight that will avoid stifling entrepreneurism, risk takers and innovation through blanket taxation rises.

That policy, in my view, could shut down the spirit and intellectual brilliance that has lifted this country out of problems historically and instead return the UK to a malaise that we haven't seen since the 1970s. There is much at stake!

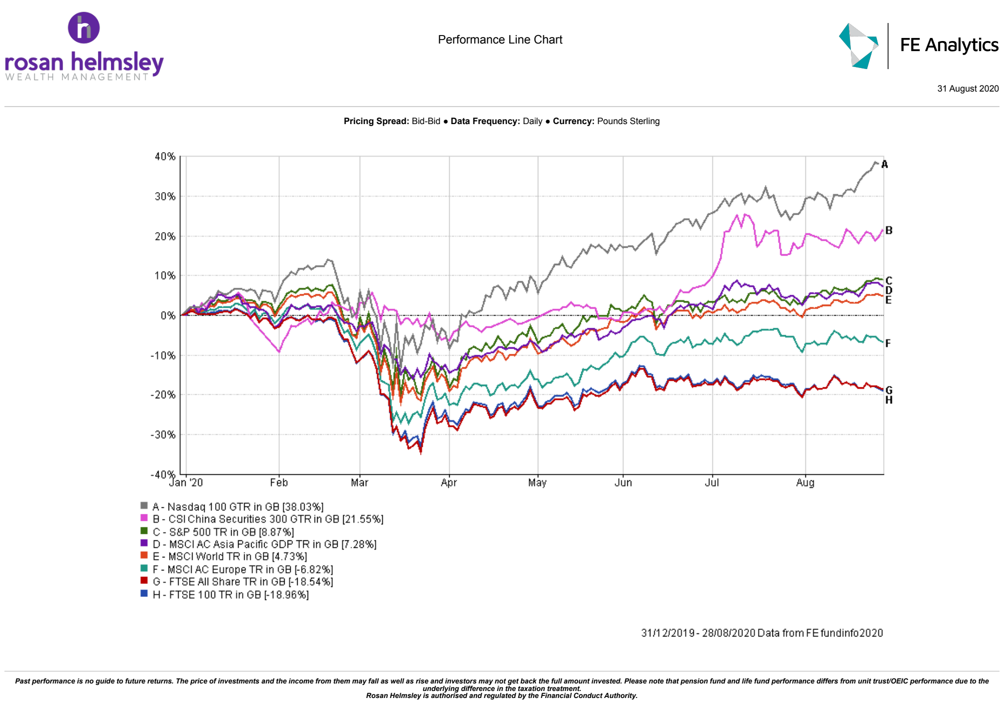
Markets

So - what of markets and our invested assets both through this period and going forward?

In this regard the UK stock market has been a distinct laggard. Year to date, markets around the world have performed very differently as the chart below demonstrates. The difference in performance over the 8-month period from January 1st to the end of August between the Nasdaq, (the best performing main index), and the FTSE 100, (the worst) is 58%. That performance differential is unprecedented.

The US markets have been very robust with their focus on large technology companies - the top 5 US companies now make up over 25% of the S&P 500 with it's largest company, Apple, now worth over $2 trillion. Technology companies have been a massive beneficiary of covid, with their strong business franchises, raised profiles through remote working - Zoom for example - and significantly increased demand for their products and services.

Global stock market performance - Year to August 31st, 2020



The chart demonstrates the success of indexes focussed on global technology and where investors have anticipated stability the other side of the crisis. Interesting too, that the main China index, the CSI 300, has performed so strongly with China being the source of the virus. Not many anticipated that outcome.

In the UK our largest companies are oils and banks, both suffering from a distinct lack of love from investors as they are forced to reconcile a need for a greener and more sustainable future in the case of oils, and challenged by potentially devastating unemployment and corporate failures post the end of the furlough period in the case of the banks. This does not mean of course that when we look back at market performance a year from now, that the return profiles above will be repeated. The US market now looks expensive, both on a relative basis to the UK in particular (the gap is as big as at anytime in the last 36 years) and the US is now on a valuation matrix at about 24 times next year's earnings.

In the UK, we still retain a large number of world class businesses and have significant expertise in medical and pharmaceutical fields that may well assist in identifying and developing a vaccine to combat the virus.

The virus has promoted the pace of transformation to a digital economy and hence the widening gap between the tech focussed markets (US) and our own market with its emphasis on more traditionally positioned businesses. It is fair to observe however, that with UK companies such as Astra Zeneca in final trials for a vaccine developed at Oxford University, that the market could shift quite quickly on the announcement of an FDA approved vaccine. By all accounts, that is quite likely in the next 6-9 months.

How will stock markets perform from here?

The most obvious comment is of course that none of us know. My sense though is one of optimism as long as our government can establish a framework where business owners and entrepreneurs can innovate and develop ideas and grow businesses without the threat of expanding socialism or the suppression of over regulation, which stifles progress today in so many industries. Capitalism and economic growth will provide the solutions that will help see government out of this debt crisis and generate the tax £s that are so needed.

If we continue to see economic stagnation in the UK, then there will be questions about the economic regime that has benefitted investors since the 1980s and that might lead to more state intervention. Economic stagnation causes increased intolerance, populism and insularity and of course that will lead to further political instability. This country can ill afford that at this juncture.

Through the last five months, I have broadly spent half my days speaking to clients and the other half with fund managers understanding the structural changes they have been making to their funds and the challenges and opportunities that lie ahead for all of us as investors. As well as being a tense and stressful period, it has been a stimulating time too. There is much to be excited about, not least the depth and strength of talent and the significant intellect that inhabits our asset management industry.

Diversification of investment ideas and fund strategies remain paramount to ensuring good investment outcomes and that has been shown to be very true this year. We continue to work hard at Rosan Helmsley to ensure all of our clients experience the best possible outcomes through these challenging periods.

Rob Sandwith | Chief Executive

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