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Independent Financial Advice

# Six Months Since Lockdown

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**It has been six months since the UK went into lockdown. On Monday, 23rd March we started social distancing, millions of people were furloughed and, for millions more, working from home became the 'new normal'.**

Six months on and the UK is gradually getting back to work. Or is it? When this article was started large swathes of the North East were facing a second, 'local' lockdown and the possibility of a curfew was being floated in some parts of London. Now more stringent restrictions have been announced by the government again as the virus appears to be increasing again universally.

The last global pandemic on this scale was just over a hundred years ago. Spanish Flu lasted from February 1918 to April 1920 and infected 500m people – a third of the world's population at the time – in four successive waves. Covid-19 may have some way to go.

It therefore seems appropriate to reflect at this six month point, looking at what has happened so far – with both the virus and wider world events – and we to try and assess what might happen in the future. Over the last six months we have been keeping you updated with market movements, and we have done our best to comment on what might happen in the coming months, although of course, nothing can be certain or predicted.

This commentary was written on Friday 18th September. The stock market figures quoted were correct as at close of business in the relevant market on that day. For comparative purposes we have used the closing levels of markets on Friday 28th February and 31st December 2019.

## A look back to February and March

**Covid-19 really began to dominate the news agenda in February. In January no one seemed to be quite sure how many countries might ultimately be affected by the virus. By February it was clear that the answer was 'all of them', as the virus started to impact on China's economy and stock markets around the world.**

Stock markets held up reasonably well for most of February but there were dramatic falls in its last week and every major market was down in the month overall. An early indication of the economic damage that would be wrought by the virus came when Sony and Amazon pulled out of the Mobile World Congress in Barcelona and, with 6,000 visitors due to arrive from China, one of the world's biggest tech shows was quickly cancelled.

By the middle of February, airlines such as Qantas and Air France were warning of a significant impact on their revenues, with initial estimates suggesting that Covid-19 would cost airlines $30bn (£23.1bn).

Events and stock market performance only worsened in March. This was the month when the US overtook China as the country with the most confirmed cases, when both Spain and Italy surpassed the death toll in China and when the UK's Prime Minister tested positive for the disease.

As the likely economic impact of the virus became clearer, the impact on stock markets was dramatic. The UK's FTSE-100 index of leading shares was down by 14% in the month: the stock market in Brazil – a country which was to be very badly hit by the virus – fell by 30%. Overall the first quarter of 2020 was the worst quarter for world markets since 1987.

> Inevitably governments around the world were forced to act. The US government passed a near $2tn (£1.54tn) aid package, described by one US Senator as a "wartime level of investment in the economy."

It was against this background that new Chancellor Rishi Sunak presented his first Budget on 11th March, initially announcing a £30bn package of aid for business. "We will do whatever it takes," he declared. A week later he was back, announcing a much larger package of aid which covered small business grants, business interruption loans, help with wages, business rate reliefs and help for the self-employed.

Inevitably, the UK went into lockdown on 23rd March. 'Too late,' cried the critics on one side: 'do what Sweden's doing,' said the critics on the other side. The general population resigned itself to watching increasingly grim government briefings every afternoon.

## What has happened since March?

### This report is a precis. We could devote an entire book to what has happened since March and still not cover a fraction of it.

The economic impact of the virus has been profound. The UK plunged into pre-recession as the economy contracted by 20.4% in the second quarter of the year. Early hopes of a 'V-shaped' recovery was quickly abandoned as it became clear that certain sectors of the economy were going to be especially badly hit. With far more people working from home, the 'commuter economy', to take just one example, may never recover.

The last six months has been a tale of redundancies: figures recently released suggest that UK payrolls shrank by 695,000 in August as the Chancellor's furlough scheme started to wind down. There has been an almost daily tale of closures and redundancies in the high street, with shop vacancies in London now at a six-year high and several chains warning landlords they could collapse without further rent reductions. Just last week additional measures were announced by Chancellor Rishi Sunak on how the government intend to support jobs in for the next 6 months.

It is, though, an ill wind. Amazon recently announced plans to create 7,000 new jobs in the UK and is investing heavily in Scout, the e-commerce giant's on-street delivery robot.

> All the other major world economies suffered in the same way as the UK. The German economy shrank by 10.1% between April and June – the sharpest fall since Germany began producing quarterly figures in 1970.

## What has happened since March? (continued)

The US economy suffered a catastrophic fall, with GDP down a historic 32.9%. Neither the Great Depression nor any other slump in the past 200 years has seen such a sharp contraction in the US economy as Covid-19 brought.

Inevitably all countries saw their debt increase as they tried to protect jobs and stimulate their economies. UK government debt passed £2tn in August – and at some point we must face the fact that all the extra borrowing will need to be repaid.

**Dean Bowen, Chartered Financial Planner reflects on how one of his clients reacted to the pandemic.**

> *One of my clients who now works as a consultant for the company that previously employed him, is an international buyer of materials and foresaw the potential pandemic as he had an insight into the Far East where he conducts some of his deals. At our review meeting early in the New Year he said to me that situation is going to get a lot worse, and of course he was right.*
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> *Back in March his portfolio (as with all client portfolios) suffered as a result of global stock market turmoil when the full extent of the pandemic became evident. Although my client relies on Ascot Lloyd and me for specific financial advice and the actual investment structure of his portfolio, he is perfectly aware of the volatility and the reasons for stock market fluctuations, so was not about to panic. So following our discussion and my reassurance and our advice, he was happy to hold on for the recovery.*
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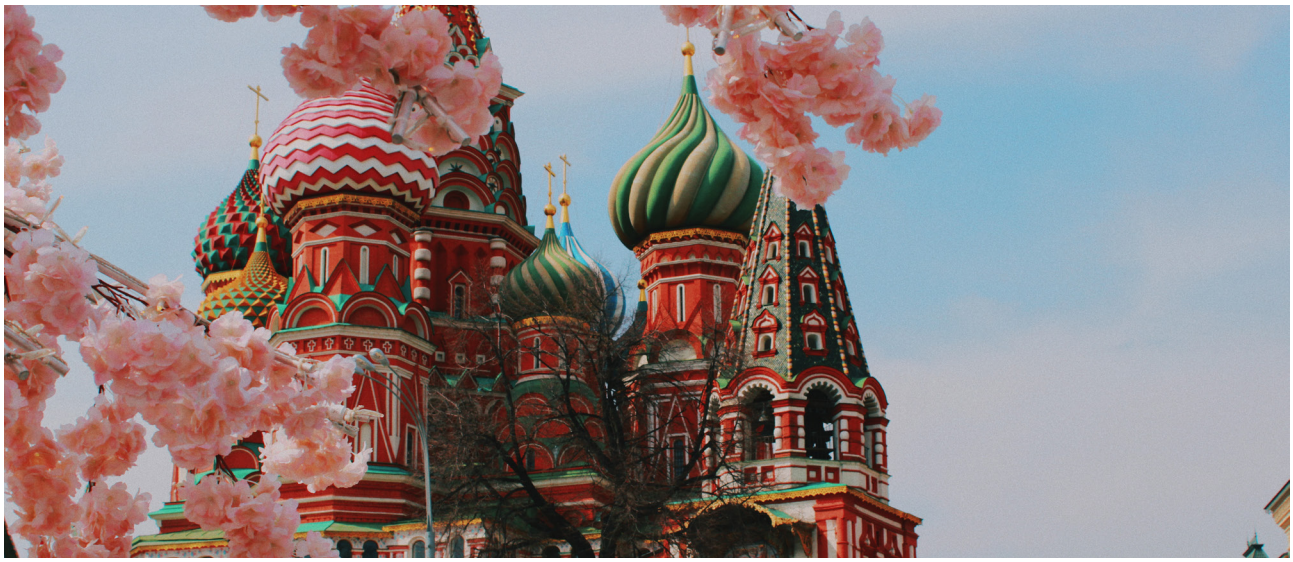
> *Following our advice he retained his portfolio and did not make any changes, and of course has benefited from this and the intermediate recovery in stock markets. He is very pleased to see that he has been rewarded by not changing his portfolio as during our recent discussion we observed that his overall investments value has recovered to at least the amount it was around this time last year.*



## What about other world events?

**Clearly Covid-19 has not been the only story throughout 2020. A referendum in Russia meant that Vladimir Putin, like his friend Xi Jinping in China, is now effectively 'president for life'.**

China passed the national security law, giving Beijing unprecedented powers over Hong Kong, with the law laying out penalties as severe as life imprisonment for 'secession, subversion, terrorism and collusion with foreign forces.' This led to widespread protests and riots in the territory, and to equally widespread arrests.

China was also roundly condemned for its treatment of Uighur Muslims in Xinjiang province: on both counts, though, the international community made a lot of noise and took no action.

In June the International Monetary Fund announced that $10tn (£7.74tn) had been spent battling the pandemic. Most of this, of course, hasn't been spent so much as borrowed. The UK has not been the only country to rack up record levels of debt this year, and you suspect that the spending will only go on increasing. In the US, for example, the Federal Reserve has pledged 'prolonged economic help' for US business and jobs, and quietly shelved its inflation targets.

## World stock markets

**Turbulent? Volatile? Those words and about 20 other similar adjectives could be applied to the major stock markets this year. Despite everything that has happened though, some markets have made progress this year: some are still well below where they ended 2019.**

### Far East Market

If we compare world markets to where they stood at the end of February then two markets in the Far East lead the way. The South Korean market is 21% higher than it was on the last day of February, closing on Friday at 2,412. China's Shanghai Composite – at 3,338 – is 16% higher. Staying in the Far East, the Japanese index is 10% higher at 23,360 but the Hong Kong index – with the territory beset by the security problems we mentioned above – is down 6% at 24,455.

### European Market

In Europe, the German stock market is currently 10% higher than it was at the end of February, standing at 13,116, but the French stock market is down 6% at 4,978. The UK's FTSE-100 index of leading shares ended February at 6,581: it closed Friday at 6,007 – a fall of 9%.

### American Market

Despite the historic crash in GDP, markets in the US have been relatively resilient: the Dow Jones index is 9% higher than it was at the end of February at 27,657 while the more broadly-based S&P 500 index is up 2% at 3,319.

It is, though, a slightly different story if we compare markets to where they stood at the end of 2019. That brings in February's sharp falls as stock markets first began to anticipate the impact of the pandemic. Using 31st December 2019 as a comparator, South Korea and China are both still in positive territory with gains of 10% and 9% respectively. The S&P 500 index, having closed 2019 at 3,231, is up by 3%. The German index is down by 1% and the US Dow Jones index by 3% since the start of the year.

Some markets, though, are sharply down, including the FTSE in the UK, which is 20% below the 7,542 at which it ended 2019. The French market is down by 17% and Hong Kong's Hang Seng index by 13%. But spare a thought for investors in Greece, where the stock market is down 28% this year.


## What's next?

**Leaving aside worries about second waves and further lockdowns, there are some significant events ahead that will shape the response to the crisis.**

In the UK, Chancellor Rishi Sunak has postponed his Autumn Budget, at some point we will need to raise some money, possibly through tax reform and increased taxes. But these measures would not sit well while the country is still struggling with the virus, businesses continue to suffer, and people's jobs are under threat.

For good or ill (probably depending on how you voted in 2016), the UK left the European Union on 31st January this year: talks continue regarding a possible Withdrawal Agreement, but so far, no such agreement has been reached. If that is still the case on 31st December, then the UK will trade with the EU on World Trade Organisation terms – the so-called 'no deal' option.

In the US, November will bring us the Presidential election. Currently Democratic candidate Joe Biden is the marginal favourite, with Donald Trump's hopes of a second term having been clearly hit by the economic fallout from the pandemic.

But perhaps the most accurate assessment of 'what happens next' comes from former Prime Minister Harold Macmillan. "Events, dear boy events," he famously replied when a young reporter asked him what gave him his biggest problems. Twelve months ago, none of us could have predicted these 'events': and there are certain to be many more bumps in the road before we all put our masks away for good.

## Further thoughts and conclusions

**Writing about Covid-19 is always fraught with danger as events move so quickly. Rapidly changing news is going to be the norm, not the exception, and we appreciate that this can be an unsettling time for our clients.**

In early September the Sunday morning's papers carried stories of '£10,000 fines for leaving your house' as the government 'got tough' on those breaking self-isolation rules, and only two weeks later the government bring in additional measures including a 10pm curfew for bars and restaurants.

**Lindsay Carter, Independent Financial Adviser has seen how her client's perspectives have changed in the last six months.**

> *Through talking to my clients, I have seen that the last six months have really got them thinking more about what they want out of life, their objectives, some who are not already retired are seriously thinking of bringing their retirement forward. By reviewing their options with them we can create a plan that meets their financial goals.*

None of us can know what the next six months will hold. The Covid-19 pandemic has accelerated trends that might otherwise have taken 20 or 30 years to arrive. Some industries and sectors of the economy may, sadly, never recover.

Neither can we predict how a 'second wave' of the virus will pan out. But we can, perhaps, take encouragement from the resilience of some global stock markets and the determination of governments and central banks to help their economies – and world trade – to recover. In the long term, economies will regain the ground they have lost: new companies will find new ways to bring new products to new markets. We can still face the future with confidence.

## Contact us

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