

Market Update

Recession - Confirmed

After a 2.2% fall in Q1, a 20.4% fall in Q2 means the UK has now officially entered recession. With such a dramatic drop in output, this is now the deepest recession since quarterly growth records began in 1955.

The economic pain has been worse than that experienced by the US and amongst the worst in Europe. The extent of the damage can be attributed to the length of our lockdown and on the dependence of our economy on the badly hit service sector. On the plus side however, and the reason behind strong market movements today was a sharp bounce back of 8.7% in June, above average expectations of 8.0%. Nonetheless, this still leaves a long way to go before full recovery.

While Q2 was the worst quarter on record, Q3 may well be the best quarter, with much of the missing spending from Q2 leading to pent up demand for when the ability to spend has returned. This is likely to mean that the recovery over the coming months will initially be sharp, but it must also be assumed it is likely to decelerate, as the job market looks set to worsen as the year goes on. ONS figures show that 730,000 jobs have been lost since the start of lockdown and with the ending of furlough scheduled for October, it seems likely that many more job losses will occur as companies are increasingly expected to stand on their own two feet.

Vaccine

The development of an effective and safe vaccine for Covid-19 is the global dream currently, as immunity could allow close social interaction once more, permitting society and the economy to return to pre-crisis conditions.

High profile scientists are often reminding us that success in this search is not guaranteed and that even if a vaccine is developed, by itself it would unlikely be a panacea. However, that appears not to dent the growing confidence that one of the many treatments currently in development may prove successful.

Goldman Sachs has issued a forecast believing that US authorities will approve a vaccine by the end of 2020. Elsewhere, Russia now claims to have developed a successful vaccine, which it intends to rollout to its population. International scepticism of this has been high, with the belief that the drug has not yet been sufficiently tested. Yet, the confidence of Russia does seem to be impacting markets, with strong gains on the day of this announcement. This is a reminder that should an internationally recognised drug be approved, then markets are likely to experience a significant rally.

Cheese, and Other Trades

EU-UK trade negotiations have been out of the headlines recently, but with the next round of talks due next week, expect Brexit discussions to increase in volume once again.

In their absence though, we seemingly have had good progress in talks between the UK and Japan, being led on the UK side by Liz Truss, international trade secretary. Largely working from the blueprint of the EU-Japan free trade agreement, a quickly arranged deal is seen as achievable, although a last minute argument over Stilton may be proving an unexpected hurdle.

At a national economic level a Japanese free trade deal may not be the most significant development, with the potential agreement expected to add only around 0.07% to Britain's GDP (compare this with the expected 5% loss from our departure from the EU single market and customs union). However, it will be seen as important as an early win for our post-Brexit freedoms. What's more, a deal with Japan is also seen as a stepping stone to the greater prize of joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a Japanese driven trade agreement which includes Japan, Australia, New Zealand, Canada, Mexico and Singapore, amongst others. If membership is achieved, this will be seen as a real prize of Brexit.

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