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Future Money Coronavirus Views

"When the time came, Britain's chancellor did not so much loosen the purse strings as rip the purse apart." - so surmised the FT's editorial on Saturday after Friday evening's press conference from the chancellor, Rishi Sunak. By stepping in to pay 80% of workers incomes up to £2,500.00 a month for those who would otherwise have been made redundant, the government has taken an unprecedented step in the fight against mass unemployment in our country's economy. Business groups have overwhelmingly welcomed the move, which had been rumoured after complaints that other announcements earlier in the week had been heavily focused on business viability, but with little on employment support. These measures will help the employed rather than the self-employed, and while there was an announcement focused on helping this latter group (through access to universal credit), there appears the need for further significant support for those affected. The government is aware of this, and how further help may be provided is now being discussed.

Overall, therefore this was a very large and important announcement that will be hugely significant in boosting the eventual recovery in the UK. By ensuring the avoidance of mass unemployment, the ability of the population to resume consumption when lockdowns cease will be of massive benefit. However, on Monday morning, the UK stock market again experienced heavy losses, when perhaps a relief rally might have been expected, given the chancellor's moves. Why this was the case appears to be because while markets welcomed this local development, it is relatively insignificant in turning the tide on the global picture, which, over the weekend, faced further causes for negative sentiment.

Lockdown announcements for large parts of India, where the situation is still accelerating, reminded us that as the virus progresses country to country, similar economic challenges are likely to be experienced.

In the US, meanwhile, political wrangling showed how stimulus packages can be held up by the checks and balances of democratic governments. A $2tn package of fiscal support is currently being debated for the US. Both sides of the political spectrum are keen to make fast progress on this, however, the exact shape of the support is causing difficulties, with the Democrats ultimately refusing to pass legislation which would free up such a vast sum. While the UK's fiscal taps have now been turned on, the US is lagging and this is likely to be the main reason why markets fell again today. All hope is far from lost, however. Democrats refused to pass the bill as they felt it too strongly favoured big business, with not enough support for medical care and the less well off. This meant that signoff could not be achieved over the weekend, but with both sides indicating there remains room for compromise, it seems likely that vast fiscal stimulus will be forthcoming in the coming days.

In the meantime, while arguments continue over the fiscal response, the US Federal Reserve is again expanding its monetary policy response. An announcement this afternoon declared that the Fed will continue buying bonds through its Quantitative Easing programme as long as markets demand it, with no cap in the value of total assets that they are willing to buy. With markets jittery over liquidity in US government bond markets over recent weeks then this is, once again, a very large effort aiming to keep proper functioning in financial markets. A further development was also the role out of a programme for the Fed to buy corporate bonds, which, once more, is breaking new ground.

In response to the crisis we are currently experiencing, monetary policy is being pushed to levels of support that we have never before seen. Fiscal policy is also in unchartered territory in many

countries, although there remains space for more action, particularly in the US, as described above. Financial markets continue to struggle, however. It is our view that market conditions will likely remain highly fearful while the spread of covid-19 continues to escalate in many countries. Yet, there will come a point when sentiment will turn, when markets have fully priced in the economic pain to be caused. When this will occur remains uncertain, but with the huge levels of support being pumped in across the global economy the time of growth will come again.

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