

## **Market Update**

### **Sunny, With a Chance of Thunderstorms**

Virus numbers continue to fall, schools start to reopen and retail shopping is on the path to resumption. Non-retail businesses too, are being encouraged to return to operations. Add in the sunny weather and there are an increasing number of reasons to feel the healing process from Covid-19 has begun. Of course, things could quickly change for the worse again should the 'R' number of virus transmission materially pick up, but until that occurs the economic picture is looking brighter, albeit from a very depressed starting point.

It should also be noted that for many businesses, perhaps the hardest challenges remain, as state support such as the furlough scheme and bounce back loans are exhausted, while the ability to generate revenues remains depressed.

Nonetheless, at the national level we are starting to see a recovery in business confidence. With the partial re-opening of the economy experienced so far, manufacturing companies are reporting improved prospects, with the Manufacturing Purchasing Managers' Index climbing to 40.7 in May, up from 32.6 in April. In this survey of business confidence a score below 50 indicates contraction and therefore the May number is still heavily negative, but such a significant jump from the prior month is encouraging that once lockdown is removed, companies look set to rebuild.

Focused on this improving economic outlook, stock markets in the UK and internationally have continued their recovery over recent days. This rally is ignoring a number of rising risks, however. As mentioned, the global economy is not yet out of the woods in terms of Covid-19, but there are other developing stories that could also yet knock confidence.

China's increasing infringement of Hong Kong's independence is a potential flashpoint for international tensions. This is especially so as the US-China trade war continues to stir and third party countries appear increasingly pressured to pick a side - not a good sign for a global economy that has thrived in recent decades on international cooperation. Finally, the development of mass protests and the defiance of curfews in many US cities in reaction to the killing of an African-American man by a white police officer should be watched carefully. While so far this has not had a significant economic impact, should societal unrest further escalate then this has the potential to become a market moving story.

### **In Search of Productivity**

Moving on from current events and towards the possible path ahead of us and it is with interest that we read reports over the weekend that suggest the Chancellor is preparing for a July launch of an economic stimulus package filled with proposals focused on training, infrastructure and technology companies. The true shape and scope of this package is yet to be seen, but given the size of cheques the Chancellor seems comfortable writing, it appears likely to be grand in scale, should it materialise as rumoured. Government policy in response to the Covid-19 economic slump so far has been focused on keeping employees in work and struggling companies afloat. Yet, in order for the economy to thrive once lockdown is over then more traditional fiscal stimulus programmes will be needed.

In the decade following the Global Financial Crisis, economic growth was enabled by a continually falling unemployment rate. Productivity per worker, however, was stubbornly low. In part, this can be blamed on firms not sufficiently investing in technology to enable greater output, but a significant cause was also a slow pace of infrastructure and training investment from the government, especially so in areas outside of the South East of England.

Consequently, there is now acknowledgement that greater public spending is required to enable the economy to expand its capacity. Such motivations were behind much of Boris Johnson's December 2019 general election campaign focus on rebalancing the economy away from London. Since then attention has understandably been drawn to the Coronavirus, but a return to this narrative could well return in the coming months and should this occur it looks likely to be tied in with the large economic stimulus now needed to restart the economy post Covid-19.

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