

Market Update

Public health vs economic health - that is the balance which must be struck by policy makers at the current time. Lockdown measures have so far been focused on healing the former, but with virus numbers continuing to come down, the emphasis is shifting to the latter with business viability being of increasing concern. Boris Johnson is set to announce further easing of lockdown measures tomorrow, with details of which business sectors can reopen from July 4th. The two-metre social distancing rule also looks likely to be reduced, which will be a major relief to many businesses.

Shovel-Ready

The financial cost of the Covid-19 lockdown is huge and therefore the government is keen to do all it can to sustainably rebuild economic confidence as quickly as possible. Previous announcements have alluded to this, with ministers asking local authorities to prioritise “shovel-ready” projects for fast-tracked approval. Measures are also aimed at those most affected, with the Prime Minister stating that an apprenticeship will be available to every young person, tackling the surge in unemployment which is expected to be particularly hit those just entering the jobs market. The government now has a clear focus on creating policies that enable quick and meaningful economic stimulus.

The chancellor, Rishi Sunak, is a key part of this and as he moves from economic firefighting to supporting recovery, further stimulus measures are currently being considered, with early July seemingly earmarked for a summer statement, likely filled with further fiscal giveaways.

As well rushing money out the door, tax receipts also appear likely to be sacrificed in the effort to support the economy. A temporary reduction in VAT, especially for companies in the tourism and hospitality sectors, seems to be one avenue under careful consideration.

Time to Pay the Bill

Mr Sunak’s stock has risen dramatically through the coronavirus crisis, with him being popularly seen as the chancellor who happily writes big cheques. Unfortunately for him however, the funding for these schemes must be managed. Currently these issues aren’t being raised in any loud voices, but with last week’s announcement that public debt has now risen to more than 100% of economic output, then the questions of funding will eventually be asked. A return to austerity, tax rises and sustained high debt are all possible strategies. So far Mr Sunak has been the chancellor who can do little wrong, but whichever route he takes in funding his spending pledges, there will be significant opposition. The autumn budget seems a likely time for the purse strings to be tightened and as such, his popular and generous persona is set for a major test.

An End in Sight?

In last week’s article we discussed the ongoing talks between Boris Johnson and President of the European Commission, Ursula von der Leyen and the potential this created for progress in Brexit negotiations. Thankfully these talks appear to have been positive, with a change in negotiating strategy agreed. Multiple rounds of intensified talk will now take place through July, with a greater focus on the most difficult questions. Success in securing a deal is still far from guaranteed, but with both sides reportedly considering compromises that could help bridge divides, there appears



22nd June 2020

increased good will in the hunt for an agreement. December 31st is the official end point of the transition period, but October is considered as the realistic deadline to allow time for ratification of the deal on both sides of the Channel. As such the end-point of this saga is potentially in sight, but with so much still to be agreed, don't expect these final months of Brexit to pass smoothly.

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