

Market Update

Cause and Effect

A lesson in the balance of lockdown severity and renewed infection rates can be learned from studying the developments of a number of southern US states over recent weeks. Many of these areas were quick to ease lockdown measures, with policymakers keen to get their economies running again as fast as possible. However with lower adherence to social distancing measures and scepticism over the need for face coverings, Covid-19 cases are now accelerating again, with Florida, South Carolina and Nevada all reporting record levels of new cases over recent days.

US Exceptionalism

US stock markets have performed relatively strongly so far during the Coronavirus crisis, on the belief that a rapid economic recovery will occur. Whilst many of the factors driving this remain valid, with renewed local lockdowns now required, the argument for US exceptionalism will be weakened if the early economic reopening proves to be a false dawn.

Build, Build, Build

Boris Johnson is due to address the nation on Tuesday and it is expected that he will announce a programme of building and development aimed at stimulating the economy out of the slump it currently faces. Money is expected to be announced for hospitals, schools and housing developments as well as other “shovel-ready” infrastructure projects. While the Conservative led government of a decade ago was characterised by fiscal prudence, aiming to balance the books, the current government appears to be taking a markedly different direction.

A Spring in the Recovery’s Step

In the UK, the recovery from the global financial crisis was a slow and tortuous affair. This time round, while the scale of the crisis we face is unprecedented, with both the Bank of England and the Government firmly on the accelerator pedal, there appears the potential for a more dynamic economic recovery, assuming that the PM’s pledges are delivered upon.

Wait and See

The Chancellor too, looks set to flash the cash in the coming weeks, although the ultimate extent of this is, as yet, undecided. Rishi Sunak appears eager to see data on spending habits post the July 4th easing of lockdowns. Overall, UK households appear to be in a good financial state, with bank savings increasing by a record £25.6bn in May, following previous record levels recorded in March and then April. This shows the scale of the potential for a strong recovery once consumers are given the chance to spend money again. Yet uncertainty lies in whether this potential will be utilised or whether households will simply move from enforced saving to precautionary saving. With the country already likely facing borrowing in excess of £300bn this year, Mr Sunak is keen not to spend further where it is not required and is therefore waiting to see how the nation’s spending develops, before deciding on how much further stimulus is required.

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