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State of Play

10 June 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update. As the UK Government approaches the crucial decision about the final phase of the unlocking roadmap, world leaders meet face-to-face for the first time in over a year to discuss global corporate taxes targeted at digital giants.

To ease or not to ease?

As infections begin to rise following the most recent phase of England's unlocking, and the devolved governments carefully manage their roadmap to normality, Prime Minister Boris Johnson and his key cabinet colleagues will be weighing up whether to delay the 21 June staging point to lift all restrictions in England. The race to fully vaccinate the over 50's and accelerate the role-out to remaining adults remains foremost in the plans of those in power who are desperate to protect people from serious illness and importantly avoid another significant wave. Whilst the Prime Minister will be keen to follow the original unlocking plan (with all restrictions due to end in England on 21 June), he will be mindful of the rise in new infections which are up 53% in the last seven days (at the time of writing).

A growing number of these have been identified as the Delta variant which has been estimated as 40% more infectious than the Kent (UK) variant. The positives he may focus on are that hospital and death rates remain flat and have not risen in line with the new infection rates. The data suggests how important the vaccinations are as a route to normality and protection. Of the 12,383 cases of the Delta variant that have been identified, 126 have led to hospital admissions. 83 of the patients had not been vaccinated at all, 28 had received one dose and just three had been fully vaccinated.

Importantly, vaccines appear to help prevent serious illness and the need to go to hospital. Currently, based on the latest available data, there are 921 patients in hospital, with 154 being admitted in the 24 hours to 1 June. The admission rate has fallen very slightly, but importantly the numbers in hospitals are minimal when compared to the height of the winter wave when 39,249 patients were being treated with COVID-19. Health Secretary Matt Hancock announced on Monday (7 June) that over 25's will be able to book their first dose this week as the vaccination roll-out continues to accelerate from the slower pace in April which was caused by supply problems. Over 76% of adults have now received their first dose and 53% are fully vaccinated.

Some media commentators suggest that ministers will delay the final phase of England's unlocking by two to four weeks to allow time for more adults to be vaccinated but still ending the restrictions in time for the school holidays. Given the current guidance on foreign travel, the decision about restrictions is crucial to stem the rise in infections. More of us have given up any hope of a foreign holiday this summer and are booking staycations somewhere in the UK which for many will be for the second year in a row.

The traffic light system which was introduced on 17 May is subject to ongoing review. At the time, Portugal was the only primary holiday destination to be placed on the 'Green' list meaning that holiday makers returning from there did not need to isolate. However, after the most recent review of the data Portugal was moved to the 'Amber' list, whilst seven other countries were moved to the 'Red' list. Importantly, no additional destinations were added to the 'Green' list restricting travellers to just 11 destinations worldwide - most of which are thousands of miles away. The implications for the travel and airline industry are devasting. The hope was this summer would see a rush of travellers' keen to holiday abroad which would revitalise a sector ravaged by the pandemic. Foreign operators' misfortune might be the UK's travel and hospitality industry's gain. It remains to be seen what the UK Government will decide and whether they play it safe.

Tackling tax avoidance

In a historic move the G7 nations (US, UK, France, Germany, Canada, Italy, Japan along with the European Union) Finance Ministers met face-to-face in London and agreed in principle to move towards a minimum corporation tax rate of at least 15%. They will present the proposal to the G20 (which includes China, Russia and Brazil) next month. The intention is to stop global companies avoiding or reducing their tax obligations by registering profits in the lowest tax countries. Often, companies will set up a local branch in a country with low corporation tax rates and declare profits there irrespective of where sales are made – this is both legal and commonplace.

The G7 aim to ensure companies pay tax where they sell goods and services rather than where they choose to declare profits and to set a global corporation tax rate to avoid countries undercutting each other. Initially

Google, Facebook and Amazon have all welcomed the agreement in principle but there has also been immediate criticism. Oxfam claim that 15% is too low to make a difference and the Tax Justice Network calling it a 'turning Point' but that the tax system remains 'extremely unfair'. There are also concerns that global firms will use potential loopholes to avoid the new rules, for example the tax currently applies for companies with a profit margin above 10% whereas Amazon in Europe claims a profit margin of 6.5%. This is the start of a long and complicated journey but the need for increasing tax revenue to help pay for unprecedented government support during the COVID-19 pandemic has moved the issue significantly up the agendas of global leaders.

Market update

Over the last week or so markets have traded within a range lacking any sort of obvious momentum. At the time of writing, economic gross domestic product data which is always looking backwards, was better than expected for both the Eurozone and Japan, but markets remain very sensitive to what is happening in the present. In particular, markets are looking to inflation data to understand what is happening with consumer behaviour and the shape of the economic recovery. Inflation data from both the US and some European countries is due today (10 June) but without any major shocks expected when compared to the forecasts pencilled in. In the first six months of this year bond yields at certain times have risen significantly in response to fears about inflation, but even these have stabilised as the rise in prices at first glance seems to be as transitory as the world's central banks had warned. The flexibility built into both policy and rhetoric from policy makers to allow the world's economy to recover from this pandemic has also helped to calm market concerns. Only time will tell whether a pick-up in prices that is expected will be more permanent than first suggested.

Find out more!

Click **here** to read our latest A Month in the Markets, from our Head of Multi-Asset Solutions Stefano Amato, looks at how key themes impacted markets in May.

Note: Data as at 8 June 2021.

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Important Information