Santander Asset Management

50 years creating value

State of Play

8 July 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update. The delayed final stage of unlocking is set to go ahead despite a sharp rise in COVID-19 infection rates.

A calculated gamble?

Throughout this pandemic the decisions faced by the UK Government have been guided by experts but have ultimately come down to a trade off between public health and the financial and social consequences of protecting it at any cost. On Monday Prime Minister Boris Johnson announced that all legal restrictions are set to be lifted on 19 July (subject to a final review of the data and confirmation on 12 July) even though infection rates are doubling every 10 days and on 5 July over 27,000 new infections were reported. The UK Government's rationale is based on several factors.

Firstly, even though vaccination rates have slowed in the last few weeks, over 85% of the adult population have received at least one injection and nearly two thirds have been fully vaccinated. Whilst that still leaves millions unprotected until they receive their injections, those that are exposed are under the age of 30 and therefore are at a much lower risk of becoming seriously ill with the virus. The data shows that 99% of all COVID-19 deaths have been in people over the age of 50 – the vast majority of whom have now been inoculated.

Importantly, in England, schools break up for the summer holidays in a little under two weeks which removes most of the daily interaction between children that has caused havoc for many schools who have suffered an outbreak of infections and have been forced to close. Perhaps the clearest example are the latest UK Government statistics which show that 640,000 are off school with 471,000 self-isolating because they came into close contact with an infected person at school. That's nearly 20 children out of school for every positive case identified. Once the schools break up and their interaction becomes limited, the six-week window should act as a mini fire break slowing the virus spread. Delaying reopening any longer could actually make the situation worse as it would extend the exit wave into the autumn when schools are back and the flu season is getting under way. Viruses thrive in the colder months, so unlocking in summer when temperatures are higher makes sense.

However, probably the most influential factor is the story behind the data. When direct comparisons are made between the daily infection rates now and the last time they were this high, back in late December, both the number of people being admitted to hospital and the death rate are lower. Whilst there is a lag between infection rates, hospitalisations and deaths, the vaccines appear to be very effective at preventing serious illness. Back in January, about one in 10 infections could be expected to translate into a hospital admission 10 days later. Now that figure appears to be somewhere between one in 40 and one in 50. The Delta variant which originated in India is proving very infectious, but those who are admitted to hospital currently are mostly unvaccinated with only a tiny number who have received both injections.

Once the legal restrictions are lifted the requirement to wear a mask will cease leaving individuals to make their own choices. The reaction so far has been mixed, but many have already committed to continuing to wear masks on public transport and inside venues or shops, especially when they are busy with other people. Businesses are free to invite staff back to the office or work place, albeit this is likely to take some time as companies readjust to life after the pandemic, the desire to protect their employees and ensure any employee concerns can be accommodated. The decision to lift restrictions is perhaps most welcomed by the hospitality and entertainment industry. There will be no need to offer table service, no need to restrict numbers inside a pub and nightclubs can reopen for the first time since last March. Theatres and cinemas will also be able to operate at full capacity providing a much needed boost to a sector so adversely affected by restrictions and closures.

The Prime Minister warned that the lifting of restrictions did not mean the pandemic was over. He warned that case numbers could be as high as 50,000 a day by 19 July and others are predicting much higher. He also announced that the time between jabs for the under-40s would be reduced from 12 to eight weeks, with a plan to have offered all adults both doses by mid-September. Downing Street outlined that there would be further announcements within a few days including plans to remove the requirement of fully vaccinated adults to quarantine when they arrive from amber-list countries, which will be music to the travel industry's ears. However, airlines like Ryanair and EasyJet did say that they will require all passengers to continue to wear masks on their journey for the foreseeable future. Protecting the NHS has always been the priority, with vaccinations providing the route back to normality, but the timing of decisions and the scrutiny of the rationale always divides opinion.

Electric car sales on the rise

According to the Society of Motor Manufacturers and Traders more than 10% of cars being sold are electric vehicles with the Tesla Model 3 leading the sales table. Data shows that 186,000 new cars were registered last month, up 28% when compared to last year but still 17% versus the average for the month of June over the last 10 years. For the first six months of this year new car registrations came in at 909,000. The shift to a greener future appears to have been accelerated by the pandemic with many taking advantages of the incentives available and their increased savings to invest in either an electric or hybrid car.

In a sign of the future for the UK car industry, Vauxhall owner Stellantis announced plans to build electric vans at its Ellesmere Port plant in Cheshire. The UK Government has agreed to fund a portion of the £100m investment, which will safeguard more than 1,000 factory jobs. The future of the plant was uncertain after Vauxhall's parent company scrapped plans to build its new Astra model there. The plant will also make electric passenger car models for Vauxhall, Opel, Peugeot and Citroën with production of an all-electric van planned to start in 2022. Sales of new vans in the UK came close to record levels during the first six months of 2021 due to a boom in home deliveries caused by changing consumer behaviour.

The future does look challenging though with confirmation in November last year that the UK Government have targeted banning the sale of new cars without significant electrification by 2030, with internal-combustion-engine vehicles outlawed entirely by 2035. The current Brexit deal is largely favourable to the UK automotive industry with strict rules-of-origin legislation meaning that by 2027, at least 55% of an electric car must be built in the UK or European Union (EU) in order for the vehicle to remain exempt from import or export tariffs. Given that batteries and motors tend to comprise a huge proportion of the cars value, and these components are typically made outside the UK and EU, the race is on for car makers to produce batteries and motors here and on the continent.

Market update

Oil prices reached their highest in nearly seven years this week after the Organization of the Petroleum Exporting Countries (OPEC) meeting concluded without an agreement. Both Saudi Arabia and Russia wanted to gradually increase production by 400 million barrels per day for the rest of the year but the United Arab Emirates (UAE) refused, pushing the price of a barrel of Brent Crude to over $77 (US dollar). The lack of an agreement means that the so-called OPEC+ bloc will keep production at current levels in August, despite rising demand from a recovering global economy. However, higher prices also bring the risk that individual countries break the agreement and raise output regardless potentially triggering another price war, although some experts believe this is highly unlikely.

All the main stock market indices are near record levels, helped by a successful vaccination program, healthy economic data and strong corporate earnings underpinned by massive levels of monetary and fiscal stimulus. The US jobs report last Friday showed that 850,000 jobs were created last month which was significantly ahead of expectations underlying the positive mood. Whilst markets remain very sensitive to the threat of rising inflation they will be reassured by the latest UK Construction Purchasers Managers Index (PMI) and retail sales data from Europe which both came in ahead of forecasts. The only source of concern may be the surprise 3% drop in German factory orders in May, given the importance of the sector for the Eurozone economy.

Find out more!

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

Note: Data as at 6 July 2021.

Important Information