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WEALTH MANAGEMENT

UK Economy shrinks by a record 20.8%

The annualised contraction in the economy in April was three times greater than the decline seen during the whole of the 2008 to 2009 downturn. Prime Minister Boris Johnson said he was "not surprised" by the figures, which go some way to outlining the significance of the impact the pandemic will be having on the UK's purse.

Thankfully, analysts agree that April will be the worst month, aided by the marginal easing of the lockdown since then in May. The UK which is heavily dependent on services, and therefore client contact, is largely expected to fare worse than our European counterparts.

As a result, the overwhelming urgency is to now ease lockdown to stimulate economic activity, whilst potentially reducing the social distancing measures from 2 metres to 1 metre and risking the chances of a second spike in infections.

Unfortunately, there is no easy way to do this. The Government will need to sail very closely to the wind over the coming months in order to navigate through the 'we're damned if we do, and most certainly damned if we don't' scenarios. Different countries are in very different situations regarding the re-opening of their economies but the desire not to be left behind is forcing some to take big risks with the speed of the return to work. This afternoon SKY News reported the 'R rate' may have risen over 1 again, suggesting that the infection rate could be trending the wrong way in isolated areas.

Against expectations of 7.5 million further job losses, last Friday's US employment reports did highlight a surprising 2.5 million improvement. This 10 million swing, capped another strong week for shares which, in the US at least, has recovered most of the lost ground so far in 2020.

The S&P 500 has now turned positive for the year to date and stands 40% higher than at the low point in March. The tech-heavy Nasdaq index is more than 10% up year to date, all of which validates our recent portfolio updates. European shares are also now just 10% off their peak, having fallen by as much as 40% in February and March. The FTSE 100 index, which dipped below 5,000 is now over 25% higher at more than 6,100.

The global rallies continue in the face of continuing poor economic and corporate news. This week, Germany announced an 18% fall in industrial output in May, as the country's main export markets remain under the influence of the Covid-19 lockdowns. Here in the UK, BP announced it was cutting 10,000 out of its 70,000 workforce with the hardest-hit sectors desperately working out how to manage their businesses through the ongoing crisis.

On a smaller scale, but indicative of the extreme pressure that many companies are under at the moment, luxury retailer Mulberry said it was consulting with staff to potentially let go 25% of its 1,400 staff.

A big fear in the UK surrounds the end of the furlough scheme, which has seen the government picking up the tab for 80% of staff costs in a bid to keep workers on companies' books through the worst of the pandemic. The scheme is due to wind down between August and October, a big spike in jobless claims is expected with the worst forecasts pointing to 5 million jobless, or 15% of the workforce, which would be the worst employment situation since the Great Depression.

The global recovery is still in the balance, the next phase is becoming increasingly important given the numbers from April as we ease lockdown under the microscopic gaze of media coverage and public commentary.

You would be wise to observe there have been mixed messages this week from economists. The good news this week is the grass is greener, but that has been more to do with the weather.

Have a good weekend.

Kindest regards

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