

# Investment Insight

## Covid-19 Update

### WHAT'S HAPPENING IN THE US?

The US economy is important because it is the world's largest, and thus an important driver of global growth. It is also the next battleground for the coronavirus.

The coronavirus has now spread across all 50 US states, making community transmission very likely. Because the virus is in the community, it will be more difficult for authorities to limit the spread of the virus.

In order to slow the spread of the virus and reduce the degree to which the health service is overwhelmed, wide reaching "social distancing" measures have been implemented. So far, twelve states have closed or restricted social spaces such as bars and restaurants. 38 states have closed public schools, along with a number of districts in other states. Further measures are expected.

While we have limited economic data covering recent weeks, timely indicators suggest that activity has already slowed markedly. The US cinema box office has posted its worst weekend in almost 20 years, grossing just \$55m, a -61% decline on the same weekend a year earlier. OpenTable data also shows reservations at restaurants around the country declined 36% last week, with the situation expected to intensify once wider social distancing measures take effect.

In response to the expected impact of the virus, the US Federal Open Markets Committee have elected to cut interest rates again to 0-0.25%, as well as implementing a number of measures to promote liquidity, including the purchase of government bonds, corporate bonds and commercial paper. The US congress has already passed one stimulus package to support the economy, with a further USD1trn being discussed. This package could include direct payments to Americans of around USD1,000.

### WHAT IS HAPPENING IN THE UK?

Social distancing has stepped up in the UK, with people being urged to avoid non-essential travel and visiting social spaces. Early data suggests that travel and leisure activity may have fallen around 15% already, suggesting a large impact on economic activity.

In response to the intensifying situation in the UK, Chancellor of the Exchequer Rishi Sunak yesterday announced an additional GBP20bn in spending to tackle the virus, on top of GBP12bn in spending announced at the budget. This takes the total spending announced to 1.4% of GDP, with further measures expected.

Measures announced last night include business rates holidays, cash grants and a three month mortgage payment holiday for afflicted borrowers. Further measures are expected to target income support and specific economic sectors, such as airlines. The Bank of England will also begin to purchase commercial paper from UK firms, enhancing liquidity, and a further rate cut is possible.

### HOW HAS OUR VIEW CHANGED?

The fact that the coronavirus has spread significantly in the US puts a more negative tilt on the outlook for global growth and it will be two weeks at least before it becomes clear how effective measures put in place have been in slowing the virus' spread.

However, it is encouraging to see governments and central banks taking action. With global fiscal measures announced so far amounting to c. 1% of global GDP, we see scope for more easing, thanks to the low interest rate environment. Governments and Central Banks now appear to fully understand the magnitude of the health and economic crisis ahead of them. If they can act collectively, there is a chance that we might quickly arrest the virus. In the face of incomplete information, we continue to forensically analyse our investments to ensure we are best placed to capture the recovery as soon as it happens, and opportunistically buy assets which we feel have been fundamentally mispriced by the markets.

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**IMPORTANT INFORMATION**

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