



Rathbones
Look forward

Review of the Week

14 December 2020

Last Chance Bistrot

Brexit trade deal talks have busted through yet another hard deadline. With time short and relationships strained, it's time for a Christmas miracle.

After a tense standoff at the weekend, the deadline for a Brexit trade deal has once again been pushed back.

UK Prime Minister Boris Johnson and European Commission President Ursula von der Leyen agreed to "go the extra mile" to find an agreement. The two sides are still far apart on issues that have been vexing since the start of negotiations. Yet early this week the tone seemed a bit more constructive and the hope of a deal rose. At least, the best barometer we know of - sterling - rose more than 1%. No new specific deadline has been set, and UK MPs are on notice to be ready to pass legislation to enact any deal during the week before Christmas.

It's hard to get excited about this prospect, however. We've been here so many times before and - as we've already said - the two issues of fishing and a level playing field were the last ones left because they are so intractable. They go right to the heart of Brexit and the EU's relationship with its members and trading partners. If a deal can be struck, it seems likely to be either a terrible flavour of fudge that will have to be unwrapped and eaten further down the line, or an imperfect agreement that causes outrage in some corner or another. But I could be wrong. I can hope. It's Christmas, after all!

Meanwhile, as the holidays approach, the UK is struggling to contain COVID-19. Public Health England's stats show infections are rising week on week in two-thirds of the UK's local authority areas. Every borough of London has reported an increase in cases, leading the Government to agonise over moving the capital into tier three. It is worried about the economic consequences of doing so, given the city is the undisputed engine of the British economy. Yet the government is weighing this against the public health consequences of not acting - allowing greater spread of the virus. And there are also political

consequences: many people in the regions have had to endure months of lockdown and will be incensed if London is seen to receive special treatment.

All eyes are on the NHS, which has been on the front line of our battle against the virus for months without respite. The vaccination programme has started in earnest, which is great news. However, there's still a lot of track to go. Many GPs have opted out of administering the vaccine because of concerns about their workloads and the impact that gearing up for a protracted vaccination drive will have on their day-to-day health services. This will put yet more heavy lifting on the shoulders of our national champion.

And that's where all of us come in. Be safe, take care and try to enjoy your holidays as responsibly as you can. Be generous, if you can be, with your time and your money. Look after yourself, your family and your community. It's been a tough year, hopefully we are approaching a turning point.

America battles the virus

It was a choppy week overall for global stock markets, yet American indices still managed to post new highs.

The US has been chasing its own hopes of a deal, albeit one with itself. The Democrats and Republicans have once again announced there's a chance of Congress passing a fiscal support package before Christmas. If this deal isn't inked before Kris Kringle arrives, America will almost definitely have to wait till after President-Elect Joe Biden is inaugurated on 20 January. To be fair, the nation has fared pretty well so far without fiscal support- emergency measures ran out at the end of July.

That resilient economy has been built on a certain laissez-faire response to the pandemic, however. That's not to say states have been doing nothing to contain it, but there have been fewer true lockdowns of hotspots and no nationwide ones. Following Thanksgiving, infections have skyrocketed, putting immense pressure on healthcare systems from coast to coast. Johns Hopkins University reported that the US daily death toll was 3,309 people on Saturday, the highest one-day COVID-related loss of life anywhere in the world.

We've said it before: the race is truly on to inoculate as many people as possible ahead of the virus's spread. If the vaccination programme is too slow - or shunned by too many dubious people - the US may reach the point where commerce can no longer go on. It may already be bumping up against this point. If the US shuts down in a way similar to that of Europe and the UK, the effect on global economic demand would be severe.

The US Federal Reserve (Fed) has been consistent in its pleas for the US government to do more to support the American economy. Having restarted quantitative easing (buying government bonds to keep yields and borrowing costs for companies and the public sector low) and slashed its interest rates to just above zero, the Fed is aware that it has done almost all it can. Negative rates are a last-ditch possibility, yet the central bank has made its distaste for the measure pretty plain. The Fed will have its final meeting of 2020 this week and will be releasing its economic projections for the coming year. These are forecasts by Fed committee members of interest rates, GDP, unemployment and other economic measures. This release will be watched very closely by investors.

The Bank of England is also meeting this week. Central bank Governor Andrew Bailey has said that a 'no-deal' Brexit would be worse for the UK economy than the pandemic. With the UK and EU negotiators firmly seated in the Last Chance Bistrot, the minutes of this meeting will make interesting reading.

The UK's retail sales finish out the week: economists estimate that November spending will be 2% higher than a year earlier. Online shopping as a share of total spending has grown rapidly this year, as you would expect. In fact, retail spending as a whole has been very strong indeed. In the three months to 31 October, sales stripping out fuel were 6% higher than the same period in 2019. How did this momentum fare in November, we wonder? The UK economy has undergone monumental changes in a phenomenally short period of time. The implications of this are extremely important for investors.

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Julian Chillingworth
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