Rathbones
Look forward

Review of the Week

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Injustice burns

America seems chaotic from the top down. Yet, if you look hard at the bottom – main street – you can get a better idea of how the US is faring, argues chief investment officer Julian Chillingworth.

In an awful echo of Eric Garner's 2014 killing by New York police, last week a Minneapolis policeman suffocated George Floyd by kneeling on his neck, ignoring the man's pleas that he couldn't breathe.

Video of the incident infuriated tens of thousands of people, who protested against police brutality in cities right across the US. Police and the national guard were soon struggling to deal with widespread rioting in Minneapolis, Washington DC, Los Angeles, New York, Atlanta, and several more cities besides. Some blame the violent turn on extremists of both the left and right, who are using the protests as a flashpoint for their own destabilising agendas. Plenty of other people seemingly got in on the looting and torching for no other ideological pursuit than for the sheer opportunistic thrill of it. The police no doubt share some of the guilt. Countless videos on social media show police forces dealing with protests against brutality with yet more brutality. And what does the President say? Well, it's not going to be anything good, so best to ignore him.

By the end of the weekend, many US cities were still smouldering, both literally and metaphorically. A lot of people have been hurt, others arrested and some economically ruined. What injustice did the owners of burnt-out shops, restaurants and vehicles wreak? For those struggling through forced closures and large-scale lay-offs, having your business trashed right when you were about to reopen could mean the end of your livelihood. Waking up to find your only means of transport torched could mean losing your job or the ability to get another one.

These animosities could get worse as the November US election approaches. You can tell that many of the White House's decisions appear to be predicated on firing up the Republican voter base. After China enacted a new security law in Hong Kong, the US threatened to remove the territory's special independent trading status. Investors have ignored the threat of an escalation of the Cold War between China and the US over the last few weeks, yet the reality of this threat may now start to hit home.

America is a strange place right now. It seems chaotic from the top down, yet if you look hard at the bottom – main street – you can get a better idea of how the US is faring. Personal income for US households shot the lights out in April. Yes, you read that right. The amount of money flowing to Americans in April was $20.7 trillion, almost $2trn more than in March and much higher than at any point in 2019. How is that possible? Well, when you boost unemployment insurance above the minimum wage – in some states, higher than even the average wage – then a lot of people are getting a pretty substantial boost to their wallets. Sometimes you can forget just how many people are living very close to minimum pay. Not only that, $250 billion was mailed out in $1,200 increments to every American earning less than $75,000. That's a lot of money! And a lot of it is piling up, as there's not much beyond food and digital services that you can spend your money on right now. Personal savings has jumped from roughly $1.3trn each month before the pandemic to $6.1trn in April, according to the US Department of Commerce. That's a lot of pent-up demand on main street.

With interest rates at rock bottom, the American property market is starting to warm up again. Prices are rising rapidly, and lots of people are taking the opportunity to fix their borrowing rates at bargain lows. Also, only 8% of US mortgage-holders are behind on their payments, forecasters had expected that figure to be closer to 25%.

So, despite the shopping list of problems facing the US, many investors are getting ever more optimistic. That upbeat feeling about the recovery in developed nation's economies has spread to Europe as well, as it also begins to roll back its restrictions. There has been a particular upward run in 'cyclical' companies – retailers, leisure and hospitality companies and financials – those businesses that would benefit most from a quick recovery in commerce and employment. A quick recovery is nowhere near certain, however. There's still a long way to go.

Easy does it

The UK takes another step toward normality this week, with all the nations relaxing their lockdown rules to varying degrees.

Some businesses are starting to emerge from hibernation, yet many more will remain shuttered for the foreseeable future. The pressure on small businesses is immense. UK banks estimate that between 40% and 50% of the 608,000 'bounce-back' loans underwritten by the government will end in default. These loans, capped ay £50,000, have terms of up to six years and are interest-free for the first year. The effects of the lockdown could be crippling, yet it would be foolish to write off the work ethic and resourcefulness of small business owners. Every business is unique, yet it seems fair to zero in on lease payments as the most likely area of strain. It is the one massive cost that hasn't been addressed by public aid. If that is the case, UK commercial property could be in for a difficult few years. Landlords will be trying to offer enough support to keep their tenants afloat while still receiving enough to keep lenders from foreclosing on the premises.

Chancellor Rishi Sunak has extended several support schemes, including offering another £8 billion to self-employed workers and extending the furlough scheme to October. These two programmes alone are estimated to cost more than £100bn. Strain on the government's finances will continue to grow, and underpins the Cabinet's appetite for trying to ease the lockdown. The longer businesses stay shut, the greater the chance of them going bust. At that point, their employees would be booted out of the furlough scheme and end up on Universal Credit (UC). Many people have already been fired outright and found that the UC scheme is much less generous than furlough, if you're even entitled to anything at all from it.

It's going to be a difficult year for many of us, and getting back to normality may take much longer than we would hope. For now, the real waiting game begins. Will the relaxation of social distancing cause a second spike in the virus? Can our businesses find ingenuous ways to open up safely? And how long will it be before our high streets can truly - and safely open themselves up for business?

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