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Let's Do The Covid Time Warp

The months seem to be rolling by quickly at the moment. Tim Harford wrote an article in the Financial Times a couple of weeks ago suggesting that our perception of the passage of time speeds up when we are stuck in the same place and not generating many new experiences. Much as I like to adhere to a settled regime, I concur. And the most exciting thing that has happened to me recently is getting a nasty case of poison ivy rash, which I'd rather forget anyway! Matters are not helped by the fact that the news has been dominated for six months by Covid and the latest antics of Donald Trump. Even stock markets offer examples of accelerated timeframes: Apple took thirty-eight years from its initial public offering to reach a market capitalisation of $1 trillion. The second trillion, which it achieved last week, took just two years!

Meetings of our Global Investment Strategy Group have moved to a monthly schedule during the Covid crisis, and August's (virtual) gathering last week seemed to come hot on the heels of July's. On the basis that this element of our investment process sets the overall risk budget for portfolios on an eighteen month horizon, we would not expect it to chop and change much in the short term, and, indeed, we remained risk-neutral this month, although it was notable that the short-term tone was a little more cautious, mainly owing to fuller equity valuations and some concerns ahead of the US presidential election in November.

You might be surprised that Covid per se is not necessarily top of our list of worries any more. In this view we are guided by our indefatigable Healthcare analyst, Doctor Jimmy Muchechetere. His weekly "clinics", in which he provides a round-up of all the latest Covid-related medical developments, have been extremely informative and well-attended. Although we have all had to become armchair virologists and epidemiologists to some degree, it has been a real benefit for us to have a fully qualified medical doctor, who once plied his tried on the front line of the National Health Service, to guide us through the mire.

Jimmy's current view is that the underlying Covid picture continues to improve gently, latest "second wave" headlines notwithstanding. The key thing that everyone is waiting for, of course, is a vaccine. I have reported before that, according to a July investor survey, around three-quarters of respondents expect a vaccine to be widely available within a period of six to eighteen months. There is no reason for those investors to be extending that horizon based on the latest news, sparse as it has been. There are four leading contenders, including the one being developed by AstraZeneca and Oxford University in the UK, and they are all conducting clinical trials, leaving us in a bit of a holding pattern.

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Much as it might be tempting to accelerate the passage of time when it comes to vaccine development, that would be unadvisable, especially on safety grounds. Not only is there the side-effect risk, but there is already a highly vocal anti-vaccination community whose hand would be strengthened by any post-launch adverse experiences. This, in turn, would make wider acceptance of a vaccine - and thus attaining the goal of herd immunity - more difficult. For the record, we give little credence to the claims of Russia to be leading the field in the vaccine race.

It is worth noting that although Covid case rates are once again accelerating in parts of Europe, hospitalisation and death rates are not following to the same extent. Even allowing for something of a lag, this could be down to two key factors. The first is that the current population of people testing positive is, on average, much younger than during the earlier peak, and thus less at risk of experiencing the worst symptoms. Second, and perhaps more encouragingly, we are getting better at treating it. One example Jimmy gives is that Covid patients are now known to be at risk of forming blood clots that can induce heart attacks or strokes. Thus the simple prescription of anti-coagulants alone can prevent many potential deaths.

We are also learning more about immunity. A few weeks ago I wrote about "seroprevalence", which is a measure of what percentage of the population has antibodies. The more antibody protection, the slower the spread of the virus. This ties in with the concept of "herd immunity", and there is increasing optimism that the often-stated level of 60-70% needed to be achieved to curtail the progress of Covid infections could be way too high. Latest research suggests that there might be some sort of cross-reactive immunity from other coronaviruses, meaning that all those common colds you have suffered over the years might have had a positive purpose! The thinking is that perhaps "only" around a quarter of the population needs to be infected with Covid to provide effective herd immunity.
If that is the case, then further widespread lockdowns, which, from an economic standpoint, would be most negative, should not be required.

So if Covid is not our biggest worry, what is?
Our main long-term concerns are around the interaction of economic recovery, the outlook for inflation and the response of governments and central banks, particularly when it comes to the withdrawal of current levels of fiscal and monetary stimulus. The inflation question is proving to be a hard nut to crack. I discussed it three weeks ago when summarising the views of Russell Napier, who believes that we are headed towards a much more inflationary world. His view will have been bolstered by the latest headline Consumer Price Indices in the UK and the US, both of which were higher than expected.
Even so, we feel it would be rash to leap to conclusions based on one month's data given the short-term disruption to certain industries and supply chains.

As for governments and central banks, they are all erring on the side of caution when it comes to providing support, and we don't think they have any great reason or motive to change stance imminently. One concern is that they can't continue to provide fiscal and monetary injections growing at the same pace as they have done, and that is almost certainly true. In the case of our government, say, we wouldn't expect another £350 billion deficit in 2021/22, but that is because the recovery in the economy should obviate the need for such largesse.

It's more complicated in the case of central bank asset purchases. We have seen in recent years that equity markets tend to struggle when the "liquidity impulse" peaks. The liquidity impulse, in this case, measures the year-on-year growth in central bank balance sheets, and that is widely forecast to top out somewhere north of $6 trillion in the first quarter of 2021. The key at that juncture will be whether or not we are experiencing a reasonable recovery in global economic growth. As long as we are, which is not unreasonable to assume, then it should not prove to be an

insurmountable hurdle for risk assets. We are certainly not expecting central banks to start shrinking their balance sheets soon.

We might learn a bit more about central bank intentions this week at the annual Jackson Hole Symposium, yet another event that has been consigned to cyberspace. The title of this year's edition is "Navigating the Decade Ahead: Implications for Monetary Policy". I'm sure there will be some very interesting thoughts presented, but despite traders' hunger for actionable soundbites, I also doubt that they (the great and good of central banking) will want to rock the boat dramatically just now.

Last week's Economic Highlights

FTSE 100 Weekly Winners

Company	Change
Persimmon PLC	5.6%
Scottish Mortgage Investment Trust	5.1%
Ocado Group PLC	4.2%
Ferguson PLC	4.1%
InterContinental Hotel Group PLC	3.2%
London Stock Exchange Group PLC	2.5%
GVC Holdings PLC	2.1%

FTSE 100 Weekly Losers

Company	Change
Standard Life Aberdeen PLC	-9.0%
Standard Chartered PLC	-7.1%
BP PLC	-6.6%
M&G PLC	-6.5%
Evraz PLC	-6.1%
BT Group PLC	-5.8%
Pearson PLC	-5.2%

FTSE 100 Index, Past 12 Months

Source:FactSet

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