# INVESTMENT UPDATE: COULD A SECOND WAVE INDIRECTLY SPUR THE MARKETS?

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Most people, not to mention businesses, were pleased to gradually return to some semblance of 'normal' as lockdown restrictions eased. However, until a coronavirus vaccine or cure emerges, any hint of a flare-up of new cases or a second wave could still lead to the restoration of restrictions. Over the past few weeks, we've seen this happen in certain parts of the UK, such as Leicester, where local lockdowns have been imposed. We aren't alone: a lot of countries that had begun easing social distancing rules have also experienced a resurgence of infections. Meanwhile, the US seems to be stuck in its first wave, although there are signs the number of new cases may have peaked in July.

We've documented the economic impact of the coronavirus crisis extensively in our regular updates, but some of the most telling figures were released relatively recently. Many countries spent at least part of the second quarter in lockdown so the hit to growth was expected, although it still makes grim reading. Between April and June, compared to a year previously the US and EU economies contracted by 33%[1] and 14.4%[2] respectively (the slowdown in the EU started in the first quarter), while figures published on Wednesday show the UK economy shrank by 21.7%[3].

Governments around the world reacted quickly. In one of his earliest speeches as Chancellor, Rishi Sunak announced £300 billion of guaranteed loans and a furlough scheme covering 80% of wages of any employees who couldn't work as business activity stalled. The US went even further, launching an emergency package worth $2 trillion. The initial response across Europe came from individual nations, most noticeably Germany where government spending is usually conservative. More recently, the EU agreed a jointly-financed €750bn rescue package, an historic development which many members had previously opposed.

The world's central banks also leapt into action, cutting interest rates to record lows and expanding their programmes of bond buying, known as quantitative easing. The Federal Reserve (the US central bank) even started purchasing bonds issued by companies for the first time.

The markets benefited from these unprecedented measures. After falling sharply in February and March, they rebounded quickly: US shares rose by 25% in three weeks, while the UK was up 14%. Technology companies have helped the rally continue in the US, but the effect has worn off elsewhere as other major stock markets have plateaued.

## A SECOND WAVE?

At best, a resurgence of infections and the reintroduction of lockdown restrictions would make the hoped-for "V-shaped" recovery decidedly lopsided. At worst, a second recession could follow close on the heels of the first. Either way, governments and central banks would have little choice but to launch additional measures to support their economies.

For instance, the Chancellor has rejected calls to extend the furlough scheme, which ends on 31st October. However, with the country officially in recession (after two consecutive quarters of economic contraction) and 730,000 jobs lost in the second quarter[4], could he change his mind? In the US, the Republican and Democratic parties continue to argue over the terms of another support package worth $1 trillion or more. Last week, US President Donald Trump sidestepped politicians to introduce his own measures, but they'll only provide temporary relief.

Central banks have generally taken a 'wait and see' approach lately, at least partly because they want governments to boost their spending. That said, they've made it clear they stand ready to take additional steps to support their economies if necessary.

## SO WHERE DOES THIS LEAVE INVESTORS?

We believe the authorities will have to introduce further measures to help the global economy overcome the impact of the pandemic. A second wave of infections would encourage them to act sooner rather than later. Whenever it arrives, another burst of support from governments and central banks would likely be universally welcomed by investors.

In the meantime, try not to let the headlines force you into making rash decisions when managing your portfolio. As the saying goes, time in the market is better than trying to time the market, and regardless of when the next round of support arrives, the worst of the turbulence is probably over.

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**Sources**


1. **https://www.bea.gov (20th July 2020)**
2. **https://ec.europa.eu/ (31st July 2020)**
3. **https://www.ons.gov.uk (12th August 2020)**
4. **https://www.ons.gov.uk/ (11th August 2020)**



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