ST BRIDE'S MANAGERS

Bull and Bear

A Review of 2020

Bull and Bear meet up for their daily exercise allowance to discuss the horrible year that was 2020. They have agreed to catch up every Sunday until the end of March to look at what lies ahead.

Bear: Happy New Year Bull, although it does not really feel like there is much to be happy about, does there?

Bull: We have our health. It's not raining, the days are getting longer, and we are still allowed to meet up like this for our daily exercise. We all know the last 300 days (yes, it is exactly that long since the first lockdown back in March!) have been terrible. Extraordinary, in fact. But we must start looking forward, rather than dwelling on the past.

Bear: I can only applaud your optimism. But it just feels so misplaced. COVID-19 deaths here in the UK have now passed 88,500 and the next few weeks are supposed to be the worst yet. Fun has been well and truly sucked out of life, hasn't it? I defy you to give me one good reason why I should be optimistic.

Bull: The vaccine. The enormity of this should not be understated. There is a light at the end of the tunnel… and that light is becoming brighter as each day passes.

Bear: Hmmm! In my mind though, 2020 should forever be eradicated from the history books.

Bull: That would certainly help our predictions track-record. It goes without saying that 2020 was comfortably our worst year ever. How on earth we got the 'predictions gig' again, I just don't know.

Bear: I know. In a world where everyone is understandably being cost conscious, surely St Bride's Managers would have deemed us surplus to their requirements. How bad do we have to be to get the chop?

Bull: By my reckoning, we got only one prediction right. One! And that was Liverpool winning the Premier League. And that was probably only because they were already 25 points clear when we went to print in mid-February!

Bear: But, to be fair, only three of the sports events we made predictions for actually took place – the Six Nations, Premier League, The Masters. All the other events, including the European Football Championships, the Olympics/Paralympics, Wimbledon and the Ryder Cup were either deferred or cancelled.

Event	Bull and Bear 2020 Prediction	Winners
English Premier League	Liverpool	Liverpool
Six Nations	France	England
The Masters	John Rahm	Dustin Johnson

Bull: So, in fact we actually got a third correct. That's not sackable form, is it? Plus, it sure does make for an unbelievable twelve months of sport this year, if all the events scheduled do take place. The Euros, Olympics/Paralympics, the Lions Tour to South Africa. A four-Test series against India. I suspect the UK's GDP may take another battering during the summer if all that sport goes ahead!

Bear: Well even if all that sport does happen, surely the GDP numbers won't be as bad as those recorded in 2020. They were properly ghastly, weren't they?

Bull: Yup. It's hard to argue with you. Official figures released this week showed that the UK economy shrank by 2.6% in November. The ONS said this meant GDP was a whopping 8.5% below its pre-pandemic mark.

Bear: And that figure clouds a myriad of sub-disasters. For instance, the service sector, which accounts for about three-quarters of the UK economy, is now 9.9% below the level of February 2020. As Rishi Sunak recently said, the figures highlight the scale of the challenge we face. So, for my part, I can only see things getting worse before they get better.

Bull: Why do you want to spoil a perfectly decent jog around the park by saying that?

Bear: Everywhere you look, the economic news is down-heartening. Retailers suffered their worst annual sales performance on record in 2020, driven mainly by a slump in demand for fashion and homeware products. Nearly 180,000 retail jobs were lost in the UK in 2020. Do you want me to go on?

Bull: Not really, no. Well, thank God for the vaccine roll-out and the economic support measures that have been put in place. It's hard to imagine just what sort of mess we would be in had the furlough system not been introduced.

Bear: Absolutely. Even with the Government's unprecedented economic support, over 800,000 people have lost their job since last February. And remember, this time last year The Bank of England had predicted that UK growth would pick up modestly in 2020 (1.50%). They are just as bad at this predicting game as we are!

Bull: What?

Bear: Well, if I recall correctly, you went on record and stated that you could foresee another 'Roaring Twenties', a decade of economic growth and widespread prosperity!

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Bull: Fake news, Bear. Fake news. But no-one would have predicted what has happened, would they? If I had said to you this time last year that a Conservative Government would provide a fiscal stimulus amounting to more than £280 billion, that 1.2 million employers would furlough almost ten million employees and that three million people would benefit from self-employment grants, you would have called for a restraining order.

Bear: True, but whilst it's rather entertaining to see just how wrong you were, we shouldn't forget the fact that the first months of 2021 are likely to see a further contraction in the UK economy and probably an official double-dip recession.

Bull: We will look at what the future holds over the next few weeks. All we were instructed to do for this edition of *The Weekly* was to revisit 2020, paying particular attention to the UK property market. Circa 1,000 words in and we still have not got to it. Oops!

Bear: Well, we've probably been subconsciously trying to avoid it, haven't we? According to Calastone, open-ended property funds saw £1.1bn of withdrawals in 2020. Furthermore, property owners suffered a £4.2bn shortfall in rental income last year, according to the latest research from Remit Consulting. That is hardly encouraging stuff, is it?

Bull: Nope, but taking everything into account, I suspect it could have been worse.

Bear: CBRE's Monthly Index, which was released on Tuesday, did not make for an easy read. Despite a positive end to the year, property posted a -7.6% decline in capital values and total returns of -2.2% in 2020. This is on the back of an underwhelming return in 2019.

Bull: The numbers don't lie. But it's not all been bad news. Take retail out the equation and property's picture is far rosier.

Bear: What do you mean?

Bull: Retail capital values fell 17.8% over 2020. Unsurprisingly, that is the largest annual fall since 2008. Retail rental values also declined -8.3% over the year too. But if you are an owner of industrial assets, you are probably sat at home feeling rather smug about things.

Bear: I had heard that.

Bull: It has been remarkable, if not a tad scary. December was a record-breaking month for industrials. Capital growth was 2.7%, the largest ever monthly increase for the sector, taking annual growth to 4.8%. Industrial rental values increased 2.8% over the course of the year, whilst industrial total returns were a whopping 9.9%. Prime industrial yields are now sitting at sub 4%!

Bear: Well, I certainly look forward to discussing whether you think all this is sustainable in due course. I thought those sorts of yields were paid for Central London offices, not industrial units in Mitcham and locations like that.

Bull: They still are. But sheds have joined them. According to Savills' research this week, their prime West End office yield remains at 3.50%.

Bear: What? Even though no-one is occupying these office buildings? Haven't the valuers read the news? Aren't we facing the potential death of the traditional office?

Bull: Again, that's another meaty topic to get into in due course but it's not all doom and gloom out there. December's West End office turnover of £1.16bn represented the highest monthly volume of 2020 and equated to 25% of the total annual figure (£4.70bn). Whilst the annual total stood 38% below the previous five years' average, Q4's turnover of £2.87bn was the highest since 2014.

Bear: But the hotel, retail and hospitality sectors have had *annus horribilis*, haven't they?

Bull: Sadly, yes they have. The landscape for those sectors has been vastly altered by the pandemic and it's been far from business as usual. For example, according to Knight Frank, UK hotel investment declined by 70% for the full year 2020, with total transaction volume exceeding just over £1.8 billion. Furthermore, 81% of the transaction volume occurred in Q1!

Bear: I must confess that I have been very surprised with how well the mainstream housing market has held up. I know that Central London house prices are suffering, but UK house prices generally rose by 6% last year, according to the Halifax. That does not make a great deal of sense to me.

Bull: Pent-up demand, a clamour for more space, and stamp duty holidays…they have all contributed to higher prices.

Bear: But the only way now is down, surely? The economic realities of 2021, including rising unemployment, will surely mean activity will slow as the year progresses?

Bull: Stop it Bull. We were explicitly told not to make any predictions in this edition, simply review 2020. If we carry on like this, we'll get thrown off the job before we've even got going…and to be quite frank, I could do with the fees.

Bear: The income will certainly come in handy but predicting what 2021 has in store for us feels like the ultimate poisoned chalice. Perhaps we should cut our losses, save some further embarrassment, and let some other mugs have a go?

Bull: Nonsense. What else are you going to do with your time? You can't go anywhere. Given the performance of Sri Lanka this week, the test cricket on TV is hardly going to keep us entertained for long. So, man up! We've got a week now to start thinking about what lies ahead this year…first stop the economy and politics.

Bear: You're right Bull. If I am going to be stuck inside the house twenty-three hours a day, there will be plenty of time for me to get my thinking cap on. I'll make one unusually "bullish" prediction to start us off though. 2021 can only get better from here!