ST BRIDE’S MANAGERS

Bull and Bear

The Economy and Politics

As part of their wide-ranging review of the market, Bull and Bear turn their attention this week to the economy and politics.

Bull: Do we really care?

Bear: Do we really care about what?

Bull: About all this politics and economics malarkey. I just want to get back to doing deals. You know my motto – if it stands still long enough, buy it!

Bear: My dear Bull, what a beautifully uncomplicated, yet delusionary world you live in. Don’t you realise that the whole investment case for property hangs on GDP growth? If you learn nothing else from our little chat today, please remember that over the long term, property total returns are about 60% correlated to GDP.

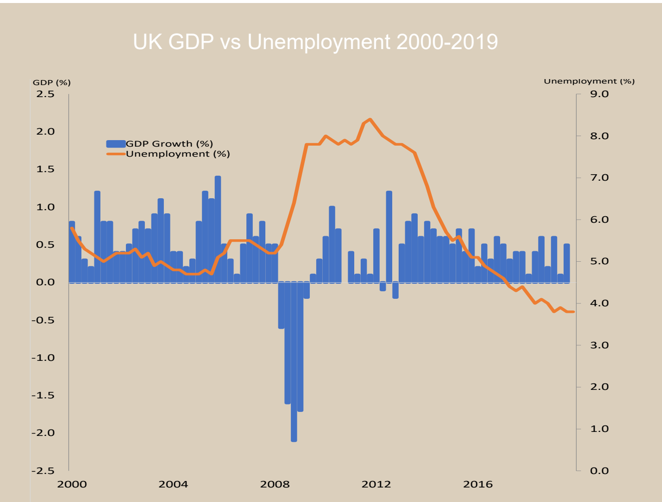
Bull: Is that good?

Bear: On the one hand, yes. It means that if you can forecast GDP, you can get a pretty good steer on how property will perform. On the other hand, with most experts reckoning that GDP crashed by about 11% in 2020, the prognosis for property over the next few years looks grim, even if there is a speedy bounce-back. Moreover, a filthy storm is brewing over unemployment and this will be a massive drag on growth.

Bull: But the latest quarterly figures (4.9% in November) weren't that bad, were they?

Bear: True. But don’t forget the 9.9 million people who have been furloughed too. If Dishy Rishi stands by the stop-date for the scheme of 31 March, then unemployment will sky-rocket. In fact, the Bank of England expects unemployment to reach 7.75% in Q2, which is not far short of the 2011 post GFC peak.

Bull: Wow!



Source: ONS

Bear: And look how fragile GDP was over the five years of high unemployment that followed the GFC. I've only used the numbers up to the end of 2019 but, mark my words Bull, when we update the graph later this year it will make your hair stand on end.

Bull: You are missing two fundamental points though Bear. Firstly, Rishi wants to be PM, so he will almost certainly extend the furlough scheme or make some modification to it; and secondly, he will just carry on ramping up the Government’s borrowing so we don’t feel the pain – at least for now. Don’t forget that he is a Goldman Sachs’ boy and they know a thing or two about leverage.

Bear: What? Don’t you realise that the Government’s gross debt, which was already £1.88 trillion (84.6% GDP) last March, rose to £2.13 trillion (99.4% GDP) by the end of December. It is on track to break through 100% any day soon.

Bull: Excellent. With bond yields at 0.31%, it would be rude for him not to fill his boots!

Bear: Moreover, the Bank of England has recently announced that their quantitative easing programme has risen to £895 billion - up from a mere £435 billion a year ago.

Bull: Relax. Who’s counting? It's only money.

Bear: Do you have any idea how many digits there are in a trillion?

Bull: I do actually – it is exactly the same as the number of digits I have on my feet! So there! But, you cannot ignore some equally positive news:

- By the end of December we had agreed thirty-four trade deals with ninety-one countries, including the EU, worth £885 billion. And we are in discussions to join the CPTPP (Trans-Pacific) Free Trade Area, even though we may be a few miles away from the Pacific Ocean.
- Borrowing rates are so much cheaper than they were a year ago. The base rate is 0.1%.
- The pound is way down against the Euro, which is just one reason why the Europeans will want to pour loadsamoney into our great property market. Sterling is as cheap as chips.
- The Savings Ratio currently stands at 16.9%, having reached 27.4% in Q2. This compares with just 4.7% in 2017. By my reckoning this means that the retail investor has loadsamoney to invest too; and
- According to the ONS, average UK house prices rose 7.6% in November to stand at £250,000, the highest since records began. This means that everyone is feeling wealthier.

UK Top Trading Partners 2019 (ONS)				
	Exports (£698.6 bn)		Imports (£725.4 bn)	
Rank	Partner	%	Partner	%
1	US	19.9	US	12.6
2	Germany	8.4	Germany	10.8
3	France	6.1	Netherlands	7.1
4	Netherlands	6.1	China	6.8
5	Ireland	5.5	France	6.6
6	China	4.5	Spain	4.7

Bear: So why is everyone so darned miserable? Maybe it's because you have conveniently ignored the fact that:

- We have not yet struck trade deals with either the US and China. Together they represent over 25% of our exports. If we think that dealing with Michel Barnier was tough, just wait and see how hard ball the Americans are going to be. They just cannot wait to get their hands on parts of the NHS!
- Since the spring, the pound has gained ground on the dollar, which makes sterling even less competitive with the Americans. Scotch whisky exports are being hammered.
- The stock market is off nearly 12% since this time last year, so everyone’s pension pot has been beaten up.
- House prices have been ramped up by the lure of ‘Help to Buy’ and Rishi’s stamp duty holiday (up to £500,000), both of which are due to come to an end on 31 March.
- And, if the economy is to have any chance of being rekindled, we will all need to go out and spend, spend, spend – which is completely counter-intuitive if you are concerned about the security of your job.

All-in-all, I am pretty sure that the last thing on private investors’ minds at present is putting their hard-earned savings into one of your dodgy open-ended funds.

Bull: That's harsh Bear.

Bear: So, let me tell you what I think is going to happen. When Rishi announces his Budget on 3 March, he is going to magic up a plan for a massive national summer spendathon.

Bull: Great. Bring it on.

Bear: Corporation tax will almost certainly be increased to pay for it. However, with the current rate at only 19% the Chancellor has got room to push it up by 4% and still be below the OECD average. That would yield him almost £14 billion which he could use to pump-prime (what hopefully by then will be) the post-pandemic economy.

Bull: Are you suggesting a return of the Eat out to Help out scheme?

Bear: Maybe. He certainly has to do something. The trouble is that tax receipts this year are likely to be well down on 2019/20 too and this means he will be forced to borrow more. Whichever way you look at it we are in deep economic ‘poo poo’ and it is fanciful to believe therefore that the property sector won’t get caught up in the vortex.

Key Investment Indicators	02.01.20	22.01.21
Base Rate	0.75%	0.1%
10-year bonds	0.53%	0.31%
FTSE 100	7,604	6,695

Bull: Changing the subject for a moment – did you see James Corden’s brilliant YouTube ‘tribute’ to Donald Trump this week?

Bear: Yes. It brought a big smile to my face. What a relief though!

Bull: What?

Bear: DT’s departure. At least now it looks like the new US administration will be re-engaging with the global institutions. This must be music to Boris’s ears, not least as he is hosting the G7 in June and the re-scheduled COP26 Global Conference on climate change in Glasgow in November.

Bull: Hmm! As it happens, I was speaking to Ol’ King Bull at St Bride’s Managers US just after the Inauguration on Wednesday. His key take on life is that he is still a cautious buyer for the next few months whilst both COVID is brought under control and Biden’s recently announced $1.9 trillion stimulus plan for the economy starts to trickle down into consumer spending.

Bear: And then? Don’t tell me. Higher taxes, more regulation and (downward) stock market re-adjustments.

Bull: Yep. That’s about it.

Bear: I think we all wish JB well. He certainly has a heck of a job on his hands. Let’s just hope that Boris doesn’t get too distracted trying to win his favours and loses focus of our own not-insignificant agenda.

Bull: True. Like sorting out the madness of CVAs and re-instating the right of landlords to forfeit the leases of delinquent tenants. Did you know that, according to Remit Consulting, about £4.2 billion of rent is still outstanding after Q3 2020? That is a shortfall of 20.9% over the year. It is a disgrace. Let's hope that Rishi doesn’t wimp out and permit the 31 March deadline to be pushed back yet again. Tenants are just taking their landlords for a complete ride.

Bear: That's a bit harsh.

Bull: Okay. Not all tenants. But the balance does feel a bit one-sided at present. So Bear, what is on your political wish-list?

Bear: That's easy. I want the Government to stop faffing around with our major infrastructure projects. For goodness sake, let’s make some decisions and then let’s either get on with them or bin them! The current indecision is sapping.

Bull: Good luck with that one.

Bear: I am also nervous about the deliverability of their commitment to ‘level up’. For instance, did you see that out of the thirty members of the newly formed UK Business Council, only five have headquarters based outside London and the commuter belt. That does not augur well.

Bull: No. We need to get the whole country firing on all cylinders, and it would do no harm to our Key Cities strategy either, would it?

Bear: True. But above all, I just want them to sort out this virus.

Bull: Here, here to that.