The 'Rule of Six' and the Secret Seven
24 September 2020

After its Chief Medical and Scientific Officers' stark warning on Monday, the UK Government announced new COVID-19-related restrictions, largely focused on the hospitality sector, on Tuesday of this week, one day short of six months after the nationwide lockdown was imposed. This follows the 'Rule of 6' restrictions, largely regarding households, implemented earlier this month.

With the COVID infection rate having already risen, to quote UK Prime Minister, Boris Johnson, the country has reached "a perilous turning point", with the risk being of infections rising not only further but also exponentially.

According to his Wikipedia entry, Mr Johnson has "at least" six children (though he "has not disclosed how many children he has"). With his having suggested that the new restrictions could be in place for as long as six months, he is, therefore, as a function of his own rule, not alone in having to decide which of his family he sees and which he doesn't on Christmas Day. Many other families are already having to deal with this and other similar quandaries.

A hypothetical question of our time is, thus, how would Enid Blyton's Secret Seven have dealt with the Rule of 6 and other social distancing requirements, particularly as they usually met in a garden shed? Our answer is that, as it's a secret club, they should have a lookout and, if one of the boys is excluded, the rest in the shed will be gender balanced. The moral of such flippancy is, however, that, as with so much involving the COVID crisis, we have become more adaptable in the face of the disruption it continues to cause and that there can be unintended benefits.

It was inevitable that the re-opening of society and the economy was going to be more difficult than their closure with, as a result, an ebb and flow of restrictions. We are, obviously, currently in a flow phase. Equity markets have, understandably, reacted to this, with the FTSE 100 index having fallen by 3.5% following the Chief Medical and Scientific Officers' warning on Monday.

There are two aspects we'd highlight regarding this, with the first being that, with the new restrictions being less severe than initially feared, the UK equity market has subsequently, albeit only partially, rebounded. The second aspect is that the equity portions of our portfolios are invested on an international basis and, with the UK representing less than 4% of the global universe of equities, as measured by the MSCI All World index, have a limited exposure to the UK, thus reducing the impact of local factors, whether in the UK or elsewhere, though, with a now near 60% weighting, the US has increasingly come to dominate this index and its returns.

Otherwise, equity markets have, broadly speaking and in UK Sterling-adjusted terms, moved sideways in the last three months, with no obvious upwards or downwards momentum, whilst, to quote JP Morgan ""The explosive post-lockdown recovery in growth, fueled by pent-up demand, appears to be over… but growth, while moderating, remains above trend". Both of the above are consistent with the 'Nike Swoosh' shape for the post-lockdown recovery, that we have written about before and is central to our thinking.

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Meanwhile, this week also saw the announcement that National Savings and Investments' (NS&I) rates, and prizes, are to be "slashed", which seems to be the prevalent description being used in the media - and is, indeed, a fair one. This is obviously a very disappointing development for its investors and savers. That said, NS&I rates have been a definite 'outlier' within the easy access savings market for some months now, since the Bank of England reduced its official interest rate to 0.1% in March this year. There has been obvious reluctance on the part of N&SI to cut its rates, if only as its Net Financing target for this tax year, as set by HMG, was raised to £35bn from £6bn in light of the latter's additional COVID-related funding requirements. It would appear that this target, if not already fully so, has now been largely achieved, hence there no longer being the necessity to offer such high, and, to be honest, anomalous rates, which are now consistent with the nominal yields being offered (this week of 1/8%) by the government in the gilt market.

Of course, it remains to be seen whether further COVID-related restrictions will be necessary, though we are not, currently at least, anticipating a full lockdown in the UK, such as we saw, and all suffered, in the spring of this year. Whist they may have had, and will continue to have, the occasional 'wobble' in reaction to set backs on the path of economic and social recovery, equity markets have proven to be relatively resilient in the face of these. Market volatility has actually been surprisingly low and, although there are other non-COVID headwinds, such as the US Presidential election, Brexit and US/China trade tensons, we remain cautiously optimistic as long-term investors.