



Rathbones
Look forward

Review of the Week

11 May 2020

Influencing behaviour

The government has unveiled its lockdown exit plan to mixed reception. Our chief investment officer Julian Chillingworth thinks attention is best paid elsewhere.

In a liberal democracy, it's hard to enforce a lockdown. Putting everyone under house arrest for their own safety is a peculiarly heavy-handed measure that tends to provoke feelings of distaste, animosity and just general restlessness. We are used to being able to do what we want, when we want.

It feels so authoritarian, so alien. Empty streets, shuttered shops and military trucks filled with fatigued men rolling up to commandeer the local sports centre. It all looks and feels just how we imagine a *coup d'etat* would. In fact, the COVID-19 pandemic may be the one crisis where dictatorial regimes and democracies have responded in the same way. Yet, in a pandemic, most people will listen to the government and follow strict rules for the greater good. The UK is especially well suited to receive such a course of action, given the huge value our society puts on manners and etiquette. Even those who disagree with the government's decisions are likely to toe the line even as they grumble in private.

But even among this polite polity, such patience has limits. We are all human after all. At the weekend about 50-odd Brits rallied to Westminster Bridge to rail against the lockdown and make a few questionable claims about the link between the virus and 5G mobile technology. This was believed to be the first such protest in the UK and it was a particularly damp squib. Compared with the thousands of people turning out to multiple protests throughout April in France, Germany, the US and elsewhere, the UK has accepted the unprecedented restrictions on its freedom with remarkable graciousness. You can't even put it down to our terrible weather keeping us indoors! The sunshine hours seem to have ticked significantly higher this spring, taunting us as we hunker down inside ...

Still, you can feel the patience of people starting to stretch thin in the UK. In the main, we're an altogether more subtle and pragmatic people. Rather than band together to yell about a government keeping us cooped up, we'll simply

ignore the order. We'll head out more often and for longer. Some of us will catch up with friends - respecting the obligatory two metres, of course - because after several weeks of bumping into people during daily walks, it seems contrived to avoid them. The parks seem to be filling up, the streets busier.

When Prime Minister Boris Johnson unveiled the three-step plan for exiting lockdown last night, I couldn't help but be reminded of behavioural science. It was good timing: right at the point that people were becoming most restless, Mr Johnson pointed out the light at the end of the tunnel. There has been much said about woolly slogans, unclear advice, botched preparations, incompetence and heartlessness amongst the government. I won't go into this here. Instead, I will simply say again: in a liberal democracy, it's hard to enforce a lockdown.

Forcing people to stay away from each other is a sure-fire way to reduce your R_0 . But short of locking people up, you've got to try, as much as possible, to bring the people with you. When adherence to a lockdown is fraying, you reframe the rules so everyone feels like they are making progress. Mr Johnson framed the plan as a loosening, but it wasn't really - the rules virtually stay the same. It was more a pivot of emphasis. Rather than everyone forget about work and stay home, now those that can do should try to work if it can be done safely. As for the stuff about being able to sit outside in the park, many people were doing that anyway.

The really important part of the government's policy isn't Mr Johnson's earnest fireplace chat. As ever, it's the boring detail. The government's safe workplace guidelines, expected to be released this week, will help or hinder millions of people getting back to work. These rules need to be robust enough to prevent workplaces becoming vectors for the virus, but they must be flexible enough to allow even small businesses to get back in action without drowning in pointless paperwork. You need transparency to reassure customers and workers that they are safe, but you can't let checkboxes take over commerce. If this policy is done right, it should ease pressure on Chancellor Rishi

Sunak who is doing the sums on whether to extend the furlough scheme beyond the end of June. Large companies wanting to cut staff have to give employees 45 days' notice, so if the furlough scheme is not extended and businesses can't begin reopening, a slew of planned lay-offs could be unveiled from Friday.

The government is trying to coax people into living with as tight a lockdown as they can stomach for as long as politically and economically possible. Because that's how you fight the virus. Along with widespread testing and tracing - which the government is desperately working on - it's the best way to prevent a resurgence in infections and tumbling into an even tighter lockdown. It's a tough gig.

Boxing clever

First-quarter UK GDP growth comes out on Wednesday. Analysts forecast that the economy slumped 2.3%, the worst quarter since the global financial crisis. This is believed to be just a taster of truly gargantuan drops in the second quarter when the nation was completely locked down.

It seems unlikely that this preliminary first-quarter figure will cause any discomfort among investors. They are well aware that the economy has been on ice; plenty of other astronomically poor data releases have been taken in stride. Global stock markets ticked higher last week despite the worst ever US jobs number. Nonfarm payrolls showed the US economy shed 20.5 million jobs in April. This was nevertheless better than the expected 22-million drop, yet these numbers are always heavily altered after later revisions, so it's best not to cling the initial reading. It's a terrible time for the labour market, but we're all pretty aware of that. What's worse is that the effects of the pandemic and the lockdown have been incredibly regressive. While the number of unemployed has shot through the roof, the average hourly US wage has jumped almost 8% on a year ago. The low-paid are the ones tumbling out of work in their millions while many well-paid have been shielded. This will

no doubt cause political problems if it can't be corrected or addressed by policy. Meanwhile, company earnings tended to beat the gloomy forecasts. That was good news at least, especially when coupled with tentative relaxations of lockdowns around the world.

On Thursday, the Bank of England's (BoE) monetary policy committee voted unanimously to keep interest rates at 0.1% and 7-2 to continue with the £200bn quantitative easing programme. The dissenters were arguing for the bank to make £100bn *more* in purchases. The BoE also outlined a "plausible illustrative example" of how it expects the UK economy to perform against the backdrop of COVID-19. While it sees GDP contracting by around 14% in 2020 and unemployment reaching 9%, it believes the recovery to be sharp and V-shaped with the severe contraction in March and April beginning to stabilise in May. It expects the economy to expand strongly in 2021, albeit it caveats that there are huge uncertainties around any forecast at this early stage.

The BoE has also suggested that many smaller UK companies are ill prepared for significant cash flow shortfalls stretching beyond even a few months, even with the support of the furlough scheme and other measures. To be fair, a lot of large companies will be in similarly difficult situations. We believe the post-COVID world, when it arrives, may have to deal with large amounts of stranded assets left over from failed businesses: aircraft, commercial real estate, factories, vehicles and equipment. How will this affect the value of assets, the cost of doing business and the ability for new competitors to create low-cost competitors to the dominant businesses of today? If you can hire a whole bunch of people at lower rates than those that prevailed before the corona crisis and pick up assets for a song, you could knock out companies already reeling from the pandemic's body blows. For some companies, the end of the lockdown won't be the end of their woes.

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