

# OCM Asset Management

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## **Market Update: 8<sup>th</sup> July 2020**

### **The UK Treasury Announces Radical Stimulus Package**

The UK government has announced £30 billion in fresh stimulus measures intended to boost the economy as it recovers from the coronavirus pandemic. The comprehensive package is intended to act as a second phase in the government's plans to support the economy through a period of extreme weakness in an attempt to prevent the economic shock of the pandemic from snowballing into a multiyear slowdown that could leave deep scars on UK businesses and the wider economy.

Earlier today, Rishi Sunak set out a radical blueprint to save jobs and pump life into the UK economy, including tax cuts on house purchases and dining out, and a new bonus for employers who retain their staff after the furlough scheme ends. The new package marks the second phase of government spending and tax cuts aimed at boosting demand and business confidence to prop up jobs in the coming months. The chancellor hinted at a third phase to follow later in the year to support the economy on the recovery which is expected to be announced in the autumn budget.

### ***What is included in the package?***

Although activity is starting to pick up post-lockdown, the UK government now faces the challenge of pulling the economy out of what may be its worst recession in three centuries. The UK economy contracted by 25% in the two months from March to April, the same amount it grew by in the previous eighteen years. The extreme pace of the decline in activity is unique to the coronavirus lockdown driven recession, therefore activity is expected to recover faster than in previous recessions, however policymakers must now focus on supporting the economy during this period to prevent the economic impacts from becoming more longer lasting economic problems.

While labour market stimulus measures have been effective in propping up the economy until now, concerns are growing over the impact on the economy as the schemes come to an end. In recent weeks, several companies have announced job cuts, fuelling calls for the government to do more to encourage job retention within UK businesses over the coming months, rather than simply delaying job losses through the schemes.

In his speech to the House of Commons today, the chancellor promised to stand by companies that keep faith with their workers and do everything he can to save jobs and give families confidence in the months ahead. Key points of the announcement were:

- The stamp duty threshold for purchases of property will be raised to £500,000 until 31<sup>st</sup> March next year (meaning nearly 9 out of 10 people buying homes will pay no stamp duty).
- VAT will be cut for six-months for restaurants, hotels and attractions to 5% from 20%.
- A bonus program will be introduced to protect workers returning from furlough and encourage businesses to retain staff.

- Discounted meal vouchers will be offered in restaurants across the country in August to boost activity and consumer confidence.

Alongside the measures to support jobs and environmental programs announced by Sunak in the run up to his statement, the Treasury also announced a £2billion program to pay the wages of more than 200,000 young workers. That's in addition to £5 billion of infrastructure spending on schools, hospitals and roads announced last week by the Prime Minister as he pledged a commitment to “build, build, build” to emerge from the crisis.

The full package is detailed below:

STIMULUS ELEMENT	COST
Job Retention Bonus	Up to £9.4 billion
Kickstart Program	£2.1 billion
Boosting work-searches, skills and apprenticeships	£1.6 billion
VAT cut for hospitality	£4.1 billion
Eating Out vouchers	£0.5 billion
Infrastructure Spending	£5.6 billion
Public Sector de-carbonisation	£1.1 billion
Green homes grant	£2 billion
Stamp Duty	£3.8 billion
<b>TOTAL</b>	<b>Up to £30.2 billion</b>

### ***Room for more?***

While the package offers significant support to the UK economy over the coming months, the chancellor left room for further stimulus later in the year, hinting at a third phase which would be aimed at supporting on the recovery. The chancellor's new package is likely to come under criticism from those within the Conservative party who have highlighted the need to avoid piling up the nation's debts, however it is argued that further support is required in the near-term despite the longer term consequences of higher borrowing.

### ***Market Reaction***

A comprehensive package was widely anticipated by investors, with the FTSE 100 gaining in recent days on hints of further stimulus, therefore markets were relatively unaffected by the news. Looking ahead in terms of further stimulus, investors will be watching closely for information on the Bank of England's plans for asset purchases and the latest issuance plans from the Debt Management Office, which are due on 14<sup>th</sup> July.

### **Important Information**

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