

Market Bulletin

11 March 2020

UK monetary and fiscal stimulus - Unprecedented shock, unprecedented response

On Wednesday, the UK monetary and fiscal authorities provided a sizeable, coordinated package of measures to support the economy in the face of the COVID-19 outbreak. Such clear coordination between the Governor of the Bank of England and Chancellor of the Exchequer carried its risks. Central banks were made operationally independent to isolate them from the pressures of a government in search of cheap financing. However, the market accepted the announcement gracefully (sterling and Gilt yields were broadly flat on the day against most major counterparts). Clearly an unprecedented shock is seen to warrant an unprecedented response.

In terms of specifics, the Bank of England cut the base rate by 50 basis points to 0.25% and announced a comprehensive package to support bank lending. A term-funding scheme has been established with additional incentives for banks to increase loans to small businesses. In addition, the countercyclical capital buffer has been reduced to 0% for at least 12 months. The governor argued in his press conference that “in the last downturn the financial system was the core of the problem, now it can be part of the solution”. For this reason he argued the Bank of England’s central expectation was that this downturn is likely to be of a much smaller magnitude than the recession in 2008. Other points to note are that the Bank reasserted its view that the policy rate can get close to, but should remain slightly above, 0%. And that expanding the asset purchase scheme is very much a possibility should the need arise in the coming months.

A few hours later the chancellor announced a sizeable fiscal expansion—the largest sustained fiscal loosening since 1992. Real day-to-day spending will return to the levels seen before the Conservatives took office, thus entirely reversing the decade of austerity. The measures announced will increase the budget deficit by 0.9% of GDP on average over the next five years and add GBP 125 billion to public sector net debt.

In terms of measures to directly support the economy during the COVID-19 shock, a package of GBP 7 billion was announced to provide direct support for households and small businesses, including more widespread sick pay, reduction or exemption of business rates, a new temporary loan scheme with a government guarantee of up to 80%, and a GBP 3,000 cash grant to around 700,000 eligible small businesses.

AUTHOR



Karen Ward
Chief Market Strategist
EMEA

The chancellor indicated he will establish a new fiscal framework ahead of the next budget. While fiscal rules are often ripped up (the last set lasted less than four months) not having a defined framework leaves him exposed. Being a chancellor is much like being a parent of a teenager—constantly being asked for money and facing an almighty sulk when the answer is no. We suspect, therefore, that this budget represents just the tip of the iceberg in terms of the fiscal loosening we are likely to see in the UK in the coming years. Ambitions to balance the books have been abandoned.

Nevertheless, the Gilt market broadly shrugged off today’s news. This reaction must mean that for now investors assume that the government will issue more debt, the Bank of England will buy more debt and, crucially, the end result will not be a resurgence in inflation. As the chart shows, however, the challenge for risk-averse investors in need of income is only getting harder.

UK Bank of England base rate and UK 10-year Gilt yield



Source: Bank of England, Refinitiv Datastream, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 11 March 2020.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at <https://am.jpmorgan.com/global/privacy>.

This communication is issued by the following entities:

In the United States, by J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative Asset Management, Inc., both regulated by the Securities and Exchange Commission; in Latin America, for intended recipients' use only, by local J.P. Morgan entities, as the case may be.; in Canada, for institutional clients' use only, by JPMorgan Asset Management (Canada) Inc., which is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon and is also registered as an Investment Fund Manager in British Columbia, Ontario, Quebec and Newfoundland and Labrador. In the United Kingdom, by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions, by JPMorgan Asset Management (Europe) S.à r.l. In Asia Pacific ("APAC"), by the following issuing entities and in the respective jurisdictions in which they are primarily regulated: JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, each of which is regulated by the Securities and Futures Commission of Hong Kong; JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), which this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; JPMorgan Asset Management (Taiwan) Limited; JPMorgan Asset Management (Japan) Limited, which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia, to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Commonwealth), by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919). For all other markets in APAC, to intended recipients only.

Copyright 2020 JPMorgan Chase & Co. All rights reserved.

0903c02a8283d8c1