

Scotched Eggs

by Alex Harvey, CFA

Of the five weekly blogs I will have written this year, none of them have been untarnished by Covid 19 with my first – Tipping Point – penned on 9th March as markets tumbled into the Corona induced abyss. From the pre Covid peak on 12th February the market hit its lows just '28 days later'¹, with the streets of London and cities around the world looking eerily similar to those in Danny Boyle's rage inducing horror of the same name. Reassuringly for investors equity markets are now comfortably higher from those levels. Roll forward to December and after two national and several tiered local lockdowns here in the UK there are signs of life on the high street and hope for 2021 with the vaccine rollout gathering pace just five weeks after the first vaccine discovery was announced. That is a stunning achievement however you look at it, and credit to those making it possible.

Since the end of 'Lockdown 2.0' in the UK, people have been able to return to previously 'non-essential' shops, get a haircut, go to the gym and enjoy a game of tennis or a round of golf. And those not living in the highest Tier 3 risk areas have even been able to pay a visit to the 19th hole or that quintessentially British institution, the pub. The rules of the game have changed, however, as masks, table service and 'track and trace' are order of the day should you want to sup a festive ale this Christmas. And if you live in a single person household then technically speaking you should be drinking alone (a worrying sign) unless you are having a 'business' meeting with your colleagues = friends. The source of greatest entertainment about the recent relaxing of rules relates to the 'substantial' meal that needs to be purchased should you wish to order an alcoholic beverage. Demand for scotch eggs has reportedly surged tenfold in recent weeks. The Co-op – a chain of local grocery stores in the UK – has reported a 26% year on year increase in sales; in the first week of December alone sales of the savoury snack rose 11%. [Readers should note quality varies markedly in this market; active selection most definitely trumps passive].

Despite the hype, I've yet to find an establishment that

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will accept the purchase of a lowly single scotch egg as a substantial meal. Instead we're being subjected to new menus of bar snacks designed for this state of post lockdown semi-stasis. My jaw dropped last week when my portion of croquetas (croquettes to you and me) contained just two of the savoury delights. Given this tapas style dish is commonly shared it felt considerably unsubstantial for the £8.50 chain pub privilege. The big plate they arrived on also suggested darker forces at play. Later that week when my nachos were charged at £9.50 rather than the £8.50 stated on the menu, I was told by the waitress that she thought she had removed all of the 'old menus' but this one must have slipped through. It won't take many more partial lockdowns to make that 12% mark-up felt. Adding to this sense of culinary robbery, the UK government's 'Eat out to Help Out' scheme in August reportedly saw some menu prices rise on the back of the government's subsidy that funded a 50% food discount of up to £10 per person. It is unlikely these prices will revert fully once we reach the new end state, whatever form that takes.

Now, I'm really not bothered by the extra quid here or there and we must do everything we can to support our local shops, pubs and eateries – make no mistake about that – but there is a common thread here. What is arguably being served up – more by unintended stealth than by design – is something we're told is not on our menus; inflation. As readers will know our portfolios are designed to outperform inflation by a margin over time, and having that margin becomes even more important if headline inflation becomes warped by shrinkflation (the croquetas) or a lowering in quality (corner shop scotch eggs). So, if you want to keep up with the bar snacking Joneses next Christmas then you'd better cook up some inflation beating returns.

¹Global equities bottomed out on 23rd March, 28 trading days after 12th February

²The Guardian, 6th December 2020

Market Focus

- » Global equity markets returned -0.7% last week as lockdown measures escalate in key markets.
- » The US is to begin administering the Pfizer/BioNTech vaccine imminently as daily deaths top 3000.
- » Brent crude oil rose +1.5% to \$49.9 a barrel.
- » Gold rose +0.1% to \$1839.9 per ounce.

US

- » The major US equity index fell -1.0% last week.
- » U.S. stimulus package hit another obstacle as Senate Majority Leader Mitch McConnell's staff said key portions of a compromise proposal from a bipartisan group of lawmakers aren't likely to get backing from a majority of Republicans. The group is expected to propose a \$908 billion pandemic relief bill.
- » Unemployment insurance weekly initial claims were 853K for the week ending 5th December (+137K ahead of the prior week). Insured unemployment claims were 5,757K for the week ending 28th November (+230K on the previous week).
- » November PPI reading (Producer prices) rose +0.1% month-over-month (as expected) after a +0.3% monthly rise in October. Core PPI rose +0.1% (+0.2% expected) from a month earlier and was up +1.4% (+1.5% expected) from a year ago.

Europe

- » European equities fell -0.7% last week on concerns about the rising numbers of coronavirus cases and uncertainty surrounding a post-Brexit trade deal and U.S. stimulus measures.
- » EU leaders passed a historic EUR1.8 trillion budget which includes a EUR 750 billion coronavirus recovery fund as Poland and Hungary lifted their vetoes. The EU's emergency asset purchase program is also to be extended to March 2022.
- » Germany will enter a hard lockdown from Wednesday with non-essential stores closed, employers urged to close workplaces and school children encouraged to remain at home, according to draft proposals.

Rest of the World/Asia

- » UK equities ended the week down -0.1%.
- » The UK and Singapore have signed a free trade agreement to replace the existing EU deal as Brexit nears.
- » The pound fell -1.6% over the course of the week against the US dollar, its worst weekly performance since early September.
- » The Rightmove House Prices MoM came in at -0.6% for November vs -0.5% for October with the YoY standing at 6.6% vs 6.3% in October.
- » Brexit talks are set to continue following a joint statement from PM Boris Johnson and the EU's Ursula von der Leyen yesterday. There was no new deadline announced this time, suggesting some progress is still expected to be made.
- » Japanese equities rose +0.3% last week.
- » Chinese equities fell -1.2% last week.
- » Japanese PM Suga announced a third round of stimulus measures last week totalling JPY 73.6 Billion. The wide-ranging package will address issues from reducing carbon emissions to dealing with the fallout from the pandemic.
- » China's November exports climbed an unexpectedly large 21.1% from a year earlier, marking the strongest growth since February 2018.

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