



# Quarterly Newsletter / Summer 2021

Lacomp plc is an independent investment management company providing portfolio management services to private investors worldwide.

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## COVID-19

As this is written on the so-called “freedom day” – a bit of a misnomer, methinks! – we find it increasingly difficult to understand what our government is trying to achieve. There are so many mixed messages coming from the PM himself, his Cabinet colleagues, his backbenchers, politicians from different parties and, of course, the medical experts.

Pandemic has now become ‘pingdemic’, with more than half a million people (i.e., largely workers) told to self-isolate at home, forcing the closure of many businesses and disrupting supply lines. The already suffering car industry will experience further setbacks, and supermarkets are likely to have emptier shelves than at the height of the pandemic last year.

The whole NHS Test and Trace (NHST&T) programme has become more and more questionable. Installing and using the Test and Trace app on smart phones is not compulsory. It is merely strongly recommended. The ‘pinging’ is also oversensitive as it can operate through thinnish walls in apartment blocks.

When it was first introduced over a year ago, it aimed to control the spread of Covid, and the Scientific Advisory Group for Emergencies (SAGE) at the time said that in order to be effective, at least 80% of close contacts with positive cases must be reached and asked to self-isolate. We now know that quite a lot of people never installed the app on their phones in the first place, and others have switched them off. We therefore wonder how many ‘close contacts’ slip through the net.

The NHST&T system has cost a fortune. According to an article in *The Independent* newspaper, the original budget of £23 billion recently was increased by another £15 billion. Private consultants were employed (by February this year still over 2,500 of them) at an estimated daily rate of £1,100 a head – with the highest-paid individual costing taxpayers £6,624 a day! Barely believable and eye-watering!

The House of Commons Public Accounts Committee found that NHST&T had failed in its task of preventing the second and third lockdowns, and that there was still no clear evidence of its effectiveness in driving down Covid-19 infection rates. The committee said it was “not clear” that its contribution to the fight against coronavirus justified its astronomical cost.

After Dominic Cummings’s ‘eye test’ at Barnard Castle and Matt Hancock’s close encounter with his assistant in his office, you would expect senior politicians to be fully compliant with the prevailing rules – let alone aware of the adverse publicity that comes with not following them.

However, we now read that Sajid Javid, the new Health Secretary, tested positive for Covid, and he had been in close contact with the PM and the Chancellor. So, were they going to

self-isolate? Not so! Apparently, their offices were part of an 'experiment' which meant that they could carry on working as usual. What on earth were they and their advisers thinking to use such a ploy? An utter PR disaster, and within hours both Boris Johnson and Rishi Sunak started self-isolating until next Monday.

Today we learn that most of the legal restrictions related to Covid have been lifted, so maybe "freedom day" will be more meaningful for many businesses and individuals, even though new infections are once again on the rise – over 50,000 a day, the highest since January. Fortunately, hospitalisation and death numbers are much lower, no doubt a result of the highly successful vaccination rollout.

Of course, it is not only our government that struggles with the pandemic: the situation is much the same all over the world, with only a few positive exceptions. Countries, the UK included, seem to forever change the criteria governing who can visit the country, where one can travel, what vaccination proof one must have, what isolation, if any, is necessary on return and what locator form and follow up tests (LFTs or PCRs) are required. Countries we visit are termed green, amber or red, and those classifications can change without prior notice.

There are also several other trouble spots in the world. Cuba has witnessed unusual and spontaneous protests not seen since Fidel Castro's revolution. The protests are aimed at the repressive government and their failing economy, resulting in power cuts and empty food stores. The Covid vaccination programme is also dire, the government having refused foreign vaccines (from COVAX) or buying from abroad, preferring to develop its own vaccine.

The conflict between Israel and Palestine reached crisis point around 10<sup>th</sup> May when Hamas started firing thousands of rockets into Israeli territory, only for Israel to retaliate with heavy air strikes into the Gaza Strip, in the process also destroying the building housing the Al Jazeera and Associated Press offices. Hamas first offered terms of a ceasefire which initially were rejected by Israel, but following UN intervention, a ceasefire was brokered on 21<sup>st</sup> May. Sadly, as so often in this conflict area, some hostilities started again some three weeks later.

Elsewhere, relations between Beijing and Hong Kong are further deteriorating, with Beijing continuing to chip away at the freedoms and small remaining degree of self-rule in Hong Kong, a process they started shortly after the UK's 1997 handover of the colony to China.

Talking of China, the US, NATO, the UK and the EU are now accusing China of serious cyber-attacks. This is nothing new, and the Russians have similarly been blamed on other occasions, but the attack by China on Microsoft servers earlier this year is the biggest and worst example, therefore it is significant that the accusations have been made very publicly.

And, without wishing to stray into the conspiracy theory arena, US diplomatic and military personnel only a few days ago have been experiencing mysterious illnesses at the American embassy in Vienna, and these illnesses are remarkably similar to those suffered by American and Canadian embassy staff some 4 years ago or so in Havana, Cuba. At the time, President Trump blamed the Cubans for the strange attacks – now known as the Havana Syndrome – but one should not forget that the Chinese trade with and have a presence in Cuba, as indeed did Russia for decades in the past.

All rather nasty and horrible but spare a thought for the many people affected by the near biblical floods in Central Europe. So many houses and communities destroyed, not to mention the high number of death cases known so far.

## THE MARKETS

Quarter 2 overall has seen a benign performance in global equity markets, as is evidenced in the portfolio valuations. Most exchanges registered positive numbers broadly ranging between 4 and 7 percentage points, the only exception being the Nikkei Dow which fell by just over one percent.

Japan initially had a relatively low Covid infection rate, and its vaccine rollout was quite slow. The infection numbers have steadily increased, however, but Prime Minister Suga could not really react with further Covid restrictions, seeing the Olympics start at the end of this week. Industrial production has also suffered, particularly in the automotive sector where the shortage of semiconductors had a serious impact on the overall supply chain.

America was the strongest performer in Q2, with the S&P 500 hitting a new all-time high, partly driven by the heavy gains in the tech giants Alphabet (Google), Microsoft and Apple, as well as President Biden's planned infrastructure spend. Inflation in the US has risen sharply, and investors started speculating whether the Fed might tighten its monetary policy. This was quite quickly countermanded by the statement that interest rates were unlikely to increase before 2023. The Fed called the spike in inflation merely temporary. We shall see.

UK and Eurozone equities also performed quite well, helped by an accelerated vaccination programme and hopes that economic activity continues to pick up.

Fixed interest investments have underperformed equities, and among the FI sector, corporate bonds have done better than government bonds.

There has been talk of a third Covid wave, given the higher infection numbers. Clearly, the markets today are taking a gloomy view of these rising infection rates and the potentially negative impact on the global economic recovery. Of course, we have seen volatility like this on several occasions in the recent past, and we must expect such sharp fluctuations to be a regular feature in the foreseeable future.

Let us hope that people will not abuse their new 'freedoms' and that things can be kept under control.

Please remain cautious, and we hope you stay well and healthy!

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