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technical news

For professionals working with international clients

Covid-19 has changed biotechnology

The pandemic has exacted a huge human and financial toll, but it has also transformed scientific research in ways that will deliver huge benefits for healthcare.

On 11 March 2020, the World Health Organisation officially declared what everybody already knew: Covid-19 had become a pandemic. The two years that followed changed the world in ways that most of us never thought possible. Most of these changes have been for the worse, but one of the few benefits may be the way that the crisis has accelerated biotechnology research and development.

Even before Covid-19 appeared, there had been many major advances in biotechnology, with an extraordinary amount of innovation and growth. But the pandemic put the sector centre stage and the vast amounts spent will have long-term implications in fields from drug development to the way clinical trials are conducted and the greater use of artificial intelligence.

One of the main outcomes of the crisis is the major advances in vaccine technology, in particular, the successful use of messenger RNA (mRNA) vaccines is a gamechanger, with long-term implications for how vaccines are developed. In contrast to traditional vaccines, which inject an inactive version of the virus or bacteria into the body, mRNA vaccines work by instructing cells within the body to produce a harmless version of key proteins from a virus. In the case of Covid-19, the vaccine is designed to get the body to learn how to target the spike protein of the Sars-Cov-2 virus, the part that enables it to infect cells and cause Covid-19.

The idea of using mRNA technology in medicine wasn't new, but there was a fair amount of scepticism about whether it would ever work. Before 2020, the biotech firm Moderna, one of the original pioneers in this field, failed to have a single product approved. However, the fact that Moderna's and BioNtech's Covid-19 vaccines provided better protection than the vaccines that use traditional methods has led to hope that this technology can also be applied to other vaccines. Trials are currently under way for flu, HIV and

drugs such as antivirals (drugs that treat viral infections by inhibiting the development and replication of the virus).

As new Covid-19 infections become less of a pressing problem, drug companies will need to focus on the growing problem of those suffering from long Covid-19. Treating the condition will probably require a combination of multiple drugs, varying from patient to patient. Already doctors are seeing two types of long Covid sufferers: some who were hospitalised and have never really recovered, and those who were mildly affected, but have since developed fatigue and brain fog.

The pandemic has also spurred improvement in the use of artificial intelligence (AI) and machine learning in biotechnology.

Covid-19 has also led to the expansion of remote trials, in which patients stay at home and send regular updates on how they are doing via email or by wearable monitoring devices. There was already pressure to move to this model – which is cheaper and allows drug companies to reach patients outside of major urban centres – but resistance to change had slowed it down. However, when Covid-19 hit, drug companies didn't have access to patients, so they were forced to innovate.

The need to get vaccines and treatments approved quickly brought various mega trials into existence, with Moderna enrolling 30,000 patients in just a few weeks. The speed was amazing, especially given that it was not a large company. Better remote monitoring devices also sped up data collection, allowing them to get real-time data on how the trials were progressing. This allowed researchers to make important decisions based on results from the mid-point of trials, including giving regulators a heads up about results and also allowing them to stop trials that weren't working early, saving time and money.

If regulators and drug companies are willing to go on a crisis footing, the time taken to develop drugs and get them approved can be slashed. Innovations include running multiple stages of trials at the same time, as well as the government part funding trials and guaranteeing orders in order to reduce the risk to the drug and biotech companies. There are also signs that regulators are starting to reform the process for granting fast-track approvals, especially for conditions that don't yet have an effective treatment.

Covid-19 has also led to advances in diagnostics, with evidence that some of the diagnostic technologies developed during the pandemic can be used for other conditions. At the start of the pandemic, doctors could only definitively diagnose Covid-19 from CT scans. However, a firm called Axial AI developed technology that automated the process, meaning that what previously took an hour could be done in just ten seconds. It later developed technology that could diagnose Covid-19 from just a person's cough and is now using the same platform to improve the diagnosis of brain cancer and the early signs of gum disease.

The entire diagnostics industry, from large firms such as Abbott Laboratories to smaller domestic laboratories, has benefited from a surge in demand. Some of this may be about to tail off, but the outlook remains bright. Governments around the world have realised the importance of having a diagnostics infrastructure in place to protect against the next pandemic – and to prevent them becoming too dependent on countries like China for supplies.

Overall, biotech achievements over the last two years have created a spate of exciting potential investment opportunities. Strong growth prospects are set to continue into 2023 and beyond.

Inheritance Tax grab intensifies

Many of our international clients will be liable to UK Inheritance Tax, because they are 'deemed domicile' – having been a long-term resident here, or have built up a UK estate. They require careful advice.

The Inheritance Tax (IHT) grab continues to intensify. The combination of frozen tax thresholds and soaring property prices saw HM Revenue & Customs (HMRC) take £5.5bn in IHT between April 2021 and February 2022 – around £700m more than in the same period last year. With the basic IHT threshold set to remain at £325,000 until at least 2026, tens of thousands more families face being dragged into the net in the coming years.

This makes it even more important that clients organise their savings and investments in the most tax-efficient way. The first principle to grasp is that private pension savings almost always falls outside of the estate for IHT purposes. That means it can be passed on to heirs without an IHT bill to pay.

How that works in practice will depend on a client's age when they die and what type of pension they have. Broadly speaking, any cash left in a defined contribution pension fund can be passed on to their heirs. They'll pay income tax on the money only if you were 75 or over at the time of your death. There are a few exceptions to this. For example, money from a pension put into drawdown before 6 April 2015 will be subject to income tax even if they are under 75 when they die.

Since IHT is not payable on pension cash left to heirs, it makes sense to run down other savings later in life before tapping into pension cash. If a client reaches retirement with, say, cash in both individual savings accounts (Isas) and private pensions, it's a good idea, all other things being equal, to use the former first. Isa savings count towards IHT calculations, so running these down before you turn to your pensions reduces your heirs' potential liability to tax.

What if this is not an option because a client has chosen to build up savings for old age through non-pension vehicles and doesn't have much in pensions to leave? One option is to rethink how these savings are invested.

In particular, most shares listed on Aim, the UK's small-cap index, do not count towards the estate for IHT purposes because the government is keen to encourage people to invest in less mature businesses. Accordingly, by shifting some retirement savings into a portfolio of Aim stocks, we'd be taking this money out of the IHT net. In practice, the performance of Aim shares tends to be more volatile, so a client wouldn't want all your retirement savings invested in this way. However, this can be a good way to mitigate some IHT risk. There are a number of specialist firms that run Aim portfolio management services targeted at families planning for IHT.

The technical name for the exemption of Aim shares from IHT is Business Property Relief (BPR). Full relief is often available on your own business, and 50% BPR relief on land, buildings or machinery used by a business that you were a partner in or controlled. Clients should take advice on how this might affect their heirs' liability to IHT. Finally, if it's not possible to reduce the IHT liability through investment planning, don't forget other mainstream strategies. In particular, by giving assets away, you'll reduce the size of your final estate. There are a wide variety of options for making both small and large gifts of this size.

The Truss Revolution

Liz Truss and Rishi Sunak have spent weeks trying to convince the UK's 160,000 Conservative Party Members that they are a breath of fresh air, despite both having served in Boris Johnson's government.

Liz Truss won the election since she chose policies that appealed to members. Reversing tax hikes resonates strongly across a party that has become more and more perturbed by the tax burden rising to its highest level since World War II. Truss's tax cuts could be inflationary, but she is pointing the finger squarely at the Bank of England (BoE) taking its eye off the ball, promising to review its mandate.

She has also managed to reinvent herself as a Brexiteer, thanks to the endorsement of Eurosceptic's including Steve Baker and Jacob Rees-Mogg, leading members of the European Research Group.

In the culture wars, she gains plaudits from Conservative voters for treading the 'anti-woke' path. Truss wants to redress the balance towards what Conservative members might call common sense.

Another reason that Truss prevailed is that she has put in the hard work to gain members' approval. In the past few years she has been meeting activists in constituencies up and down the country. She knows it's not just about a highly visible social-media profile, although she's been putting effort into that too. A cursory glance at her carefully curated Instagram account reveals her in a tank, in Russia, in front of the flag at her desk – anything to remind you of her proto-Thatcherite expeditions to sign trade deals and defend Ukraine during her time as trade secretary and then foreign secretary.

Finally, her opponent has upset the membership on a number of levels. It's not just that Rishi Sunak has raised taxes and is now trying to convince them he's a tax-cutter. They feel he has no integrity following the furore over the tax status of his wife, his US Green Card and his Partygate fine. In the regular monthly surveys conducted by the grassroots Conservative Home website, Sunak's score in approval ratings of Cabinet members collapsed early in the election. Throw in the fact that his resignation triggered the fall of dominoes that removed Boris Johnson, and Sunak can be accused of back-stabbing to boot. Truss, rather conveniently, was out of the country while her colleagues were stepping down.

Once the woman who wants you to perceive her as a loyal, hard-working, Thatcherite Brexiteer gets to work, we can expect her to deliver a fiscal stimulus that will see monetary policy tighten in response.

Higher interest rates and steeper yield curves will support UK banking stocks.

They will also bring about a stronger currency, with sterling benefiting from a boost to growth and a wider interest-rate differential. That will be particularly the case versus the euro, where the looming energy crisis over a protracted war with Russia will cripple an economy that was already structurally stagnant.

Truss's tax cuts will also help the British consumer during the stagflationary period ahead, which should in turn bolster the consumer-goods sector and the leisure and travel industries. But there will be a divide between the luxury and budget ends of the market. The latter will struggle due to the high inflation rate for essentials, which hurts lower-income groups more.

But Truss is taking a gamble on her economic plan, as her opponent never fails to point out. She might simply stoke the inflationary fire, which the BoE now predicts will reach the incendiary level of 13% by the end of this year. Truss would argue that the five-quarter recession the BoE also predicts necessitates action now. And she plans to review the BoE itself.

With inflation now so far from the mandated 2% target, her ally and new chancellor Kwasi Kwarteng, warned that "something's gone wrong" and "we've got to look at how [the Bank] is performing". Rumours abound over what this might mean in practice, but with suggestions that the target could be shifted from inflation to GDP, or intervening in what attorney general Suella Braverman called "its entire exclusionary independence over interest rates", we could be in for a radical new approach from a Truss government.

The new prime minister will have just over two years to convince the country to vote in the Conservatives for what will then be almost two decades in power. Truss has to go for broke. She inherits a

71-seat working majority that is desperate for unity and vision after almost two years of directionless discontent. Her chief enemy will be vanquished and she will be almost unassailable, with the party unwilling to put its members – or the country – through yet another contest. She will put this power to work quickly, before the honeymoon dissipates.

Get ready for the Truss revolution.

Rationing Returns?

Right across Europe, governments are cutting back on power usage to get ready for what looks likely to be a harsh winter.

Berlin has stopped illuminating public monuments at night; Hanover has switched off the hot water in showers in public buildings. Paris is stopping illuminated signs and preventing shops from running the air conditioning while their doors are open. The Spanish are ditching their ties to make stuffy offices more bearable. Why? Russia reduced its supplies of gas into Europe, making it impossible to fill crucial storage facilities over the summer, and has now turned off its European pipeline in entirety. Emergency plans are being put in place to cope with that, mainly by rationing the use of energy.

That is going to have a huge impact on the economy in particular sectors, and on specific companies. It will be just as much of a blow as the Covid-19 lockdowns.

The UK is less at risk than Germany, France and Italy. But that doesn't mean it can't happen here or that we won't be affected by closures on the other side of the channel. Investors and businesses need to prepare for the rationing economy.

How? First, avoid heavy industry. There are a handful of power-hungry industries that can put production on hold for a month or two, or that can ship in supplies from elsewhere, without the world coming to a standstill. Chemicals, for example, or steel, or building materials, or paper and pulp manufacturing. Many of the biggest German chemical plants use as much energy by themselves as medium-sized towns. Many of them can be closed for a few weeks. That will disrupt supply chains, especially on construction sites where work may have to stop as well. And companies will take a huge hit to their profits as they will almost certainly have to keep paying their staff (although some form of furlough scheme may be available).

Next, avoid energy-intensive services. Shops use relatively small amounts of energy, so long as they turn the heating down and don't leave the doors open in the winter. Garages don't use a lot of electricity. Other services use far more. A gym needs a lot of showers and it requires hot water. Restaurants burn up a lot of power in the kitchen. In a second round of closures, many high-energy, non-essential services may find themselves limited to operating three days a week if they are not closed completely – and their profits will be hammered.

Third, expect a return to working from home. Transport networks use a lot of power, and so do offices. Where possible, they may well be closed. In fact, the rationing economy will look a lot like the Covid-19 lockdown except with restrictions on all those fuel-hungry home deliveries.

Finally, investors should consider those essential industries where the electricity will keep flowing. There are plenty of sectors we simply can't do without. Food and drink manufacturing, for example. The supermarkets. Hospitals and healthcare facilities will run as normal no matter how much power they are consuming. The broadcasters will still be working to keep us all entertained and no one is going to switch the internet off. Essential, basic industries and services may not exactly thrive. But they will do a lot better than most others. Likewise, expect companies generating alternative energy, especially wind and solar, to boom.

Energy rationing will hit the economy hard. Some estimates suggest Germany could see a 7% fall in output; it could even be a lot higher than that. But the impact will be uneven. Companies and investors need to start getting ready for that now – before winter approaches.

Contact us

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