Market Commentary for the Period 1st October 2020 – 31st December 2020

Global equity markets ended the period strong following a surge in returns given an array of positive news flow. Markets started their ascent at the beginning of November as the uncertainty around the US election began to subside. Just days following the result, both Pfizer and BioNTech declared that a vaccine had been produced, then Moderna and finally a combined effort from Astrazeneca and Oxford University. The series of positive vaccine news led to a continued rise in markets, with some regions reaching all-time highs. Late in the quarter a trade deal was struck between the UK and EU following four-and-a-half years since the initial EU referendum.

Markets started the period in decline as the Prime Minister announced a number of new COVID restrictions after an increase in infections. These included the curfew of hospitality venues with pubs and restaurants closing after 10pm, people to work from home where able, all retail and taxi drivers to wear masks and weddings reduced to a maximum of 15 guests. It was communicated that these restrictions were to remain in place for a minimum of 6 months. He then announced a new three-tier system, with households in the highest tier unable to mix indoors or outdoors, pubs and restaurants to shut if not serving meals, as well as gyms, leisure centres, betting shops and casinos. The Liverpool City region was the only area to be immediately placed in 'very high' alert with London, Essex and York as well as others later upgraded.

A number of European countries were also forced to impose tougher lockdown restrictions. In Spain, a state of emergency was announced in Madrid and nearby cities where people could not leave the city and no social contact between different areas. Hotels and restaurants had limited capacity and closed in Catalonia for a period of 2 weeks. In Netherlands, all bars, restaurants and coffee shops were closed. Ireland saw the banning of household visits and indoor restaurant dining extended from Dublin to the rest of the country. In France, a curfew was implemented in Paris and a number of other cities. Limits were imposed on gatherings and curfews on bars and restaurants in Berlin. Further lockdown measures were then announced later in October. A number of high profile individuals were reported catching the virus, including President Trump and the First Lady who tested positive shortly following his first presidential debate.

Late in the quarter, a new and more transmissible strain of the virus was discovered in the UK leading to a banning of all flights to France, Germany, Italy, Switzerland and Canada among others from the UK. France took further action to temporarily close its border to all freight traffic causing the Eurotunnel and Port of Dover to close. PM Johnson then announced a new tier-4 level of restrictions as well as indoor mixing restricted from 5-days to Christmas Day alone over the festive period. On New Year's Eve a further 20 million people were moved into tier-4 comprising almost 80% of the country.

Given the deteriorating outlook, Chancellor Sunak extended the furlough scheme until the end of March where up to 80% of wages would be paid by the government. As part of the scheme, anyone made redundant after mid-September could be rehired and put back on furlough. The Self-Employment Income Support Scheme (SEISS) was increased to cover 80% of average trading profits. The 5% VAT cut for hospitality and tourism was also extended until end-March 2021.

A number of companies then began to suggest the potential for a vaccine following final stages of clinical trials and some announcing they were stock-piling hundreds of thousands of a potential vaccine jab for regulatory approval. In early November, Pfizer and BioNTech were the first to announce they had developed a vaccine which was shown to have prevented over 90% of infections in a study of tens of thousands of volunteers. Markets rose significantly following the news with those hardest hit by the pandemic broadly seeing significant gains and a number of investing platforms faced technical problems as they could not cope with trading volumes.

Further vaccine announcements followed with Moderna claiming they had a vaccine which was 94.5% effective in testing. Finally Astrazeneca and Oxford University were reported developing a vaccine that was 70% effective, but could also be stored at -3 degrees so far more practical for transportation and production, as well as being much cheaper. GP surgeries in the UK started vaccinating with the Pfizer jab in mid-December and the Oxford-Astrazeneca vaccine was approved late in the quarter. While in the UK the majority of lockdown restrictions remained, the travel quarantine was reduced from 14 to 5 days as part of a 'test and release' scheme if passengers tested negative.

In terms of political news, Democratic presidential candidate Joe Biden became President-elect in an extended election period. Incumbent President Trump was initially reticent to concede, claiming the election was stolen from him and that he would take legal action to contest the vote. This dissipated in the weeks following as more people endorsed the election result and finally the Electoral College confirmed Joe Biden's presidential victory. In the midst of the dispute, Former Federal Reserve chair Janet Yellen was also announced to take the position as US Treasury Secretary.

There was much debate amongst US politicians around the fiscal stimulus that was required to aid to small businesses and provide funding for unemployment benefits. A $900bn package was later agreed providing support to around 12 million Americans at risk of losing unemployment benefits. EU negotiators were however much quicker to reach a preliminary deal for a €1.8trn budget and stimulus package, to be launched in 2021.

The UK and EU agreed a post-Brexit trade deal just days before it would take effect on 31st December. The 1,200 page agreement outlined that there would be no tariffs or quotas on trade, although there would be some new checks at borders. Some industries lost their automatic right of access to EU markets as well as losing their recognition of professional qualifications. UK nationals would require a visa for longer stays in EU countries and European Health Insurance Cards (EHIC) would be replaced by a new UK Global Health Insurance Card. The UK also cut its ties with the European Court of Justice (ECJ) meaning that unresolved disputes between the UK and EU would have to be referred to an independent tribunal. The UK would gradually gain a greater share of fish from its waters over the coming five-and-a-half years. Both the UK stock market and pound sterling were strong in the lead-up in anticipation of a deal being struck.

With regards to macroeconomic data, while the second quarter saw the largest contraction on record across most developed major economies, the third quarter saw a considerable rebound, with some economies such as the US experiencing the greatest expansion on record. It is important to note however, that there is still some way to go before all major economies are back above where they were before COVID-19 and that economies are at different stages of handling the fallout from the virus. Specifically with regards to the UK's economy, Chancellor Sunak's spending review outlined their expectations of economic output returning to pre-crisis levels in Q4 2022, unemployment to reach 7.5% in Q2 2021 from its current rate of 4.9% and UK debt levels to rise to 97.5% of GDP in 2025-26 from just under 92% in 2020.

Inflation data had been mixed with prices more stable in the US relative to the UK which was low and both Europe and Japan where aggregate prices showed deflation driven by multiple factors, including falling energy costs. Unemployment also varied amongst regions with rates high and falling in both the

US and Europe and relatively lower, but rising in the UK and Japan. Most developed economy central banks have committed to rock-bottom interest rates for longer such as the US Federal Reserve outlining their intentions to maintain record low levels at least through 2023.

Trends in housing activity have continued, with the growth in house prices reaching levels last seen in 2015-16. Both housing transactions and mortgage approvals reached multi-year highs driven by behavioural shifts from the virus as well as the stamp duty holiday bringing purchases forward. It is widely expected that housing market activity will slow in the coming quarters as the stamp duty holiday expires and the labour market weakens.

Within fixed income markets, there was a sign that markets had already priced in the lower for longer outlook on interest rates, as government bond yields were little changed over the period in broad terms. Yields of investment grade and 'junk' bonds however closed significantly lower as investors were evidently pleased to accept credit risk in the absence of income across the marketplace. This had a positive impact on investment returns, coinciding with the strong returns experienced in equity markets.

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Contacts

For issues relating to your financial planning, please contact your usual adviser.