

# Market Update

## 4<sup>th</sup> January 2021



2020 ended at a frenetic pace as worsening news flow relating to Covid cases was tempered by the successful conclusion of Brexit negotiations, and by news that the AstraZeneca/Oxford University vaccine had been approved for use by MHRA, the UK's medical regulator.

Symptomatic of an unusual year, a normally quiet day in Christmas Eve was dominated by the UK and the EU sealing a trade agreement ahead of the Brexit grace period ending on 31st December 2020. Disagreements over fishing rights and the 'level playing field' were resolved with sensible compromises made on both sides, meaning neither side will impose tariffs on goods being traded, while a zero quota agreement will ensure no limitations on their tradeable quantum.

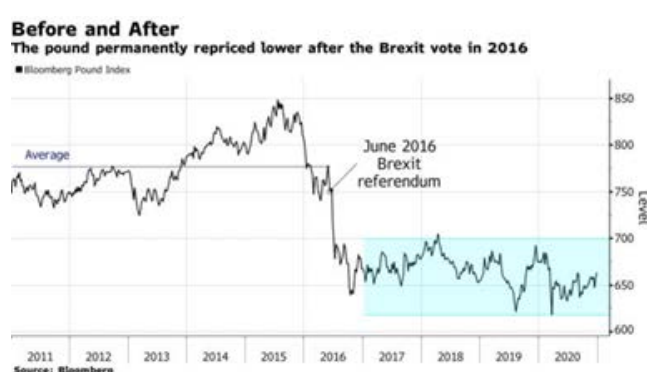
This is particularly important given the deal most notably involves manufacturing and industrial sectors which were set to lose out most from the imposition of such barriers. Exporting will perhaps become more expensive at the margin at least initially as new rules and processes must be followed, but it is hoped over time that these will not be an undue burden; indeed, on the first day of post-Brexit trading, the media reported no signs of disruption at the likes of Dover and Calais ports, and the Channel Tunnel freight crossing.

Politicians on both sides welcomed the deal with an overwhelming tone of relief, with UK MPs enshrining the agreement into law on 30th December. The Prime Minister struck a positive tone in his press conference, making sure to emphasise that the UK would always remain emotionally and culturally European and noting the ways in which the EU is a 'noble enterprise'.

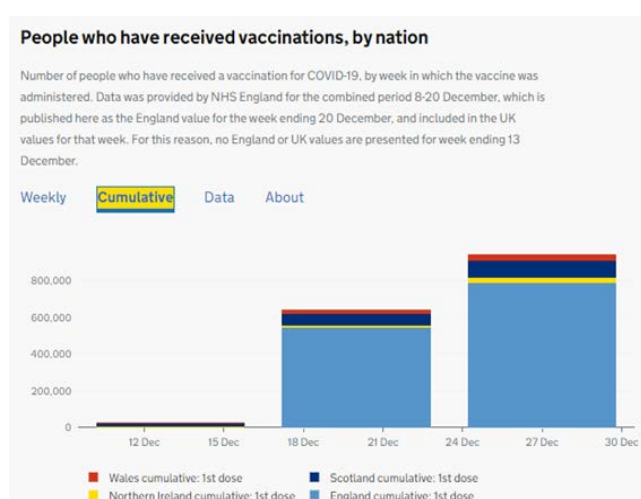
While certainly a significantly positive development in reducing uncertainty over the UK's future, Boris Johnson and his government must now endeavour to show what it intends to do with the powers it has brought back. Indeed, new talks will almost immediately start on financial services' relationship with the EU, as treasury ministers and civil servants look to draft a 'memorandum of understanding' that will lay the groundwork for market access and future deals.

In the run up to the agreement, UK equities and the Pound had rallied strongly, with small gains for both seen since the announcement on Christmas Eve perhaps exacerbated by traditionally lower levels of trading around the Christmas period. As we have written above and before in these notes, UK assets are undervalued and unloved by global asset allocators; a fact illustrated well by the chart below showing the performance of the Pound versus a basket of currencies.

The conclusion of Brexit negotiations is a major step forward in reversing this negative sentiment, but in the near term, attention will now rightly turn back to the roll-out of vaccines, as the path of Covid is still the overwhelming determinant of asset prices.



The UK will administer the first AstraZeneca vaccines on 4th January after becoming the first country to approve its use last week. More than 1 million people have so far received the Pfizer/BioNTech vaccine to date per the chart below with the Government now looking to greatly expand the vaccine roll-out. Planned vaccination sites will be expanded to more than 1,000, with as many as 100 more hospitals and 180 GP-led services coming online this week:



The military have been embedded with the NHS for weeks in efforts to vaccinate the most vulnerable 25 million citizens by April with AstraZeneca pledging to supply 2 million doses per week, and we hope to see numbers of those vaccinated skyrocket in the coming weeks.

The positive vaccine news comes as further constraints are mooted for the UK as the Government looks to react to rising case numbers particularly in England. Media reports are circulating of a new blanket national lockdown and the return of shielding, with a further announcement on school closures to come this week.

With all of England currently in heavily restricted Tiers 3 and 4 already, it seems clear that at least some of the recent case increases must be attributable to human behaviour as we move into the 11th month of lockdown, leading us to wonder what real impact further curbs will have.

Looking back over the last two weeks in markets, global equity indices broadly rose in value in local currency terms, but when accounting for the Pound's strength in the run up to and aftermath of the Brexit deal, many ended the period in the red. The Pound rose by 1.1 - 2.1% against other major currencies, meaning US, European and Japanese equities all fell in Pound terms by between 0.1 - 0.8%, while the large-cap FTSE 100 index also fell by 1.1%. The mid-cap FTSE 250 index was the main beneficiary of the stronger Pound, continuing its recovery with a 1.9% gain, while Asian and Emerging Market indices also rose by between 0.6 - 1.3%.

More volatility was seen in government bond markets, particularly in the UK, as sentiment swung from 'risk off', to 'risk on' in quick succession. Conventional and inflation-linked Gilts saw significant peaks and troughs given their sensitivity to rapidly changing expectations on the UK's growth, interest rate and inflation expectations, though both asset classes saw gains overall, while overseas government bond returns were negative given currency swings. Finally, in precious metals gold saw a loss of 1.0% and silver a gain of 0.1%, though again this hid significant volatility.

We see the medium-term outlook for risk assets as positive; particularly those hardest hit in 2020 by Covid-related factors. The success of vaccines is what we must focus on now - both in terms of retaining this optimism, but also when seeking to manage risk. Vaccine roll-outs have been successful so far at least in the UK, but questions remain over their speed in the coming weeks and months in relation to meeting ambitious targets, while in thinking of tail risks, we must consider outcomes that might arise should issues arise with efficacy. This said, we start 2021 with a positive mindset and hope that these expectations can be met.

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