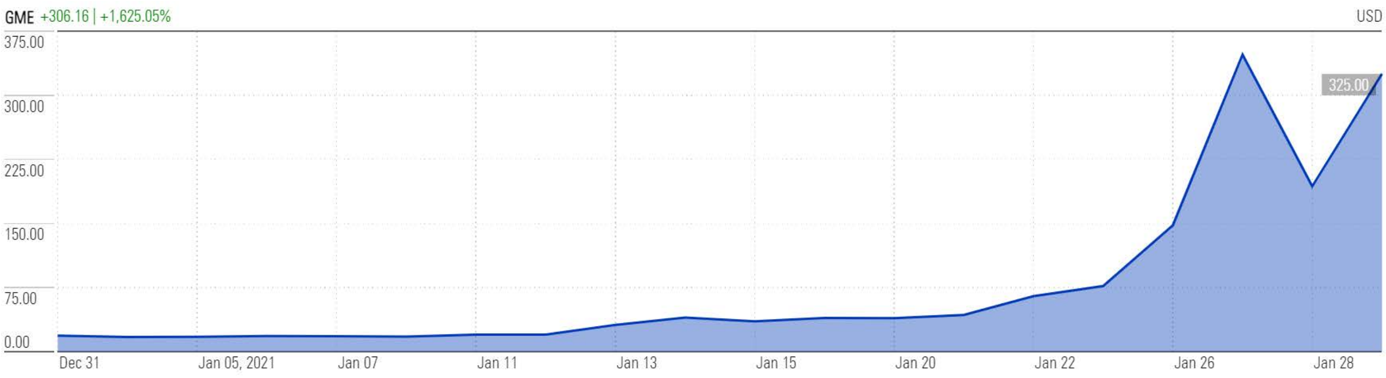
Market Update

1st February 2021

In a busy earnings week, volatility was driven by online messaging forums such as Reddit encouraging individual investors to buy a select number of widely shorted stocks, in an attempt to take on Wall Street's goliath hedge funds. GameStop and AMC Entertainment Holdings were subject to some of the widest media coverage with small investors driving extreme price action in the stocks.



Excitement and the resulting short squeeze led trading volumes to hit a new high of 34 billion shares on Wednesday, versus a year to date average of 14 billion.

Shorting a stock involves investors borrowing shares from a broker at an agreed upon price. Anticipating that the price of the stock will fall, the short seller then sells the borrowed stock on the market, expecting to be able to repurchase shares at a lower price, and thus return them to the broker having made a profit. A short squeeze occurs when there is extreme upward price action, often caused by low liquidity and high demand, forcing short sellers to purchase stock at high prices and cover positions.

The short squeeze seen over the past week has cost hedge funds an expected $20bn and led both the SEC and FCA to weigh in, in an attempt to protect small investors from the extreme risks associated with such predatory trading.

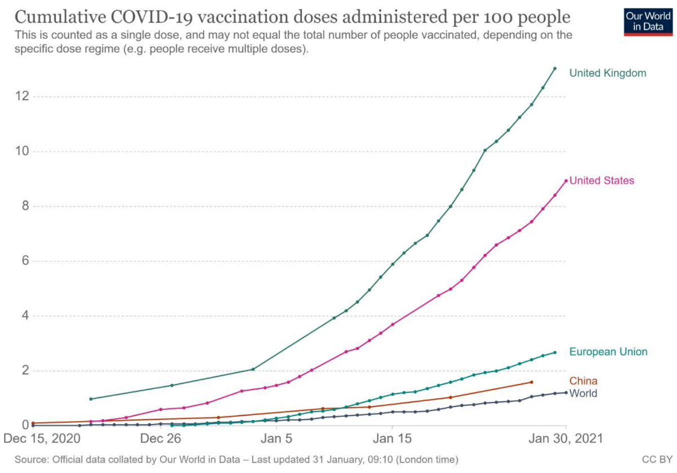
Thursday then saw the Robinhood trading platform suspend buys in 13 of the most heavily traded stocks as it was forced to raise $1bn from its backers in order to meet its SEC net capital requirements and clearinghouse deposits. This allowed prices to come down slightly before being driven up again as trading was allowed to resume on Friday.

Despite these very localised bursts of mania, global stocks declined through the week, with all major indices ending down. In the US, Wednesday saw the S&P have its worse day since October, falling -2.6% and ending the week at -3.30% (in USD terms). Elsewhere, the MSCI Emerging Markets index and the FTSE 100 returned -4.29% and -4.27%, respectively, while German, French and Japanese indices also closed in negative territory (all in local currency terms).

Falling equity markets caused US Treasury yields to drop to 1.0% on Wednesday, indicating a slight move to safety, albeit this pulled back as the week came to an end. UK Gilts followed a similar trajectory, with prices rising mid- week and falling off come the weekend. Spot gold fell slightly, while silver prices were buoyed by Reddit-induced interest.

Away from short term price action, the Federal Open Market Committee provided confidence to markets with Fed chair, Jerome Powell, announcing that US central bank policy will remain loose for some time to come, with no planned tapering of asset purchases. This mood is supportive for risk assets and allows us to maintain our view that equity markets will continue to outperform through 2021. Q4 GDP figures came in for a number of regions, reflecting modest growth in the US, Germany and Spain, while the French economy shrank.

Globally, growth expectations continue to be driven by virus related news flow, with last week's headlines providing all manner of twists, as the EU continues to grapple with vaccine rollouts.

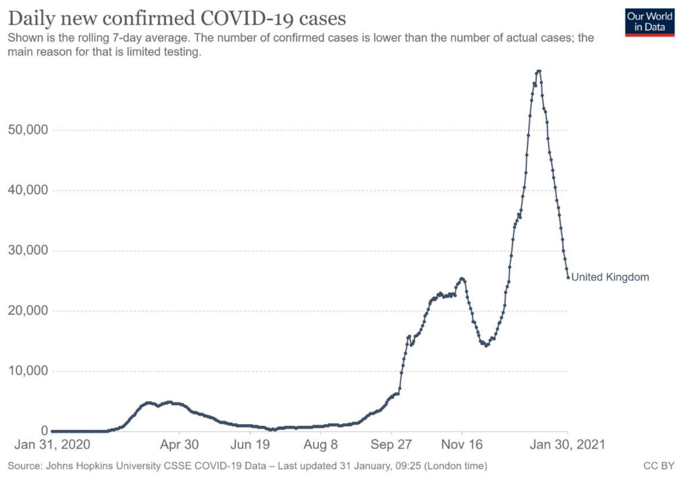


After AstraZeneca announced that it may not be able to keep to its previously agreed timeline of vaccine delivery to the bloc, a curious set of events occurred, largely driven by law makers in Brussels. We saw threats that vaccine supply from the EU to other nations (namely the UK) would be blocked, and misinformation around the efficacy of the Oxford-AstraZeneca vaccine in the over 65's, albeit these were later denied. There were then reports that Article 16 of the Brexit agreement would be invoked, and border controls put in place between The Republic of Ireland and Northern Ireland to prevent leakage of EU destined vaccines into the UK. Friday night talks between Boris Johnson and European Commission president Ursula von der Leyen led to an understanding that any such actions would not come to fruition.

Thus far we are yet to see what, if anything, comes from this spat, but publicly released contracts appear to show no legal wrongdoing by AstraZeneca, merely some slightly loose wording. The EU's handling of the whole situation, however, is being deeply questioned, not only by pro-Brexit critics in the UK, but from commentators within the bloc, pharma companies across the UK and EU, and the WHO.

Back on home ground, there is positive news, with the Novavax vaccine on the brink of being approved. Trial data infers just over 89% efficacy, and should approval be granted, it will be the fourth to be given the green light by UK regulators, bringing Britain's access to doses up to 217m. Optimism is also growing in line with data coming out of the Janssen trials, for which the UK has orders placed.

Rollout of already approved vaccines continues to go well, with NHS data showing that to 30th January, a total of 8,977,329 people in the UK have received their first dose and 491,053 have received their first and second dose. On Wednesday, we heard Downing Street announce that this pace of inoculation, combined with a continued reduction in new daily cases, could be sufficient to allow the reopening of schools and phased lifting of lockdowns to begin in England on 8th March.



There is much to look out for in the week ahead, with the anti-Wall St online movement unlikely to disappear and European political machinations also set to continue. We do not see the former leading to widespread market contagion and want to see the latter resolved as soon as possible, with a clear uptick in EU vaccinations to follow, as any delays will weigh on broad economic reopening.

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