Market Update

07 December 2020

The Pfizer-BioNtech vaccine was approved for use in the UK last week, with the most vulnerable members of the population expect to start receiving it from Tuesday 7th December.

After some confusion about how many doses will be available in 2020, NHS leaders have confirmed that up to 4 million doses will be distributed before the end of the year, with the first consignment of 800,000 in the process of being shipped from Pfizer's production site in Puurs, Belgium. Over-80s in hospital and care home outpatients will be targeted first, with care home staff and over-80s living in the community scheduled next. Healthcare workers will now only receive the vaccine this year if there are spare slots.

Fifty hospitals are ready to act as hubs to administer the vaccine immediately, hopefully to be followed by other doctors' surgeries and pharmacies, assuming they have the facilities needed to store the doses at the required temperatures.

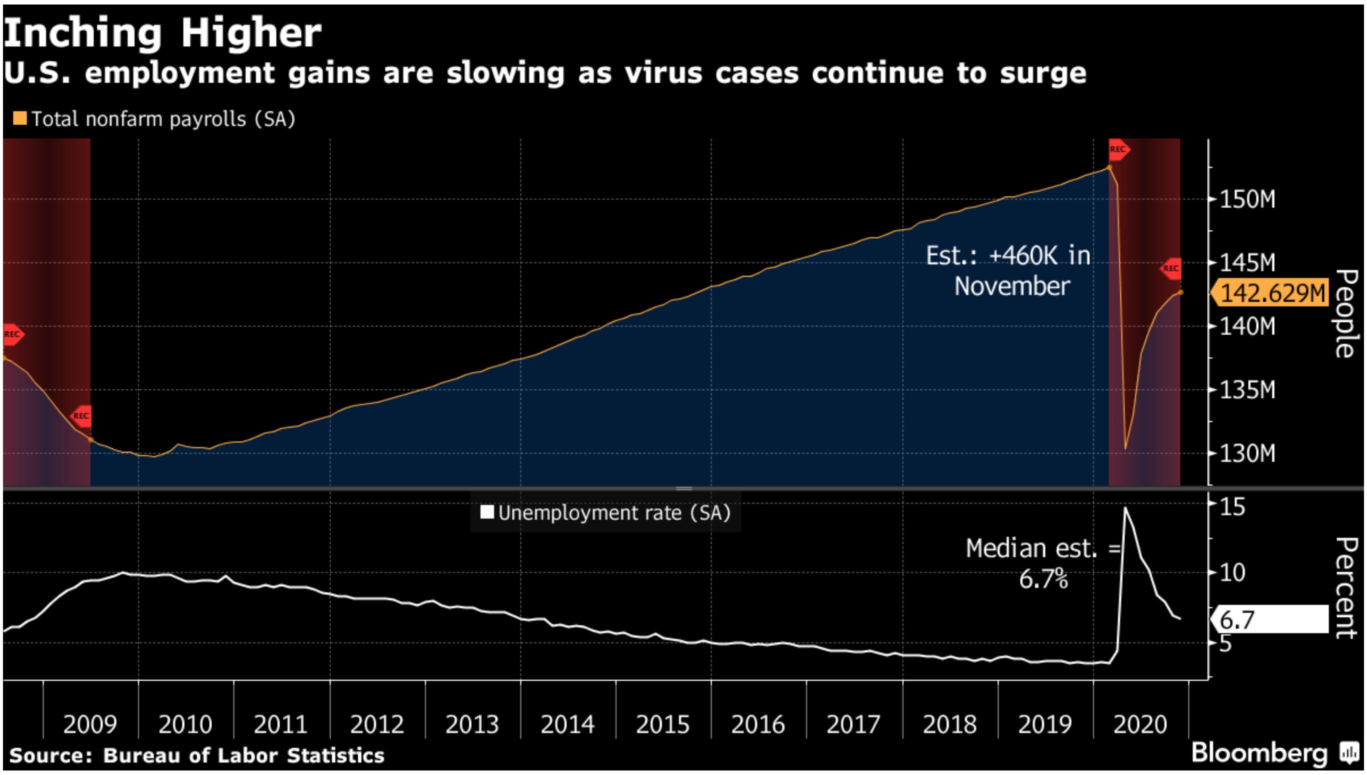
While similar approval is being sought for the AstraZeneca vaccine, it seems that an additional global trial will be needed to clear up uncertainty and confusion surrounding favourable results in its current study. The company wants to confirm the 90% efficacy rate that the jab showed in a portion of the existing trial where participants were given an initial half dose, which, it later emerged, only occurred due to a manufacturing discrepancy. Further, this positive data came in a cohort with a maximum age of 55, meaning the results are potentially less relevant in determining efficacy in the most vulnerable.

The good news on vaccines comes as a stark contrast to the fortunes of Britain's high street, as first Debenhams prepared to close its doors for good after failing to find a buyer, then Arcadia Group (Topshop and Dorothy Perkins) began insolvency proceedings. Both retailers operate around 600 stores combined and employ 25,000 people, and the news comes as the industry is set to lose 235,000 jobs this year, according to the Centre for Retail Research. Mike Ashley's Frasers Group is in discussions with Debenhams' advisers to operate their 124 stores under 12-month licenses which could save thousands of jobs, but uncertainty remains.

Despite progress reportedly made over the weekend on fishing rights, Brexit talks remain 'on a knife edge' leading into the start of the week. The issue of the day is the 'level playing field', which relates to guarantees of fair competition on subsidy law, labour rights, the environment and taxes in order for the UK to unlock a tariff-free deal. Progress has been made here, too, but there is still disagreement around how to manage any divergence in the future while reassuring the UK that it is in control of its rule-makers.

Boris Johnson will speak to EU Commission President Ursula von der Leyen again on Monday 6th to decide whether to allow negotiations to continue into Tuesday, or if there is no prospect of agreement, to walk away. It has long been thought that any deal would be done at the last minute, but time is now genuinely short, and we expect an outcome one way or the other this week.

The all-important US jobs market weakened in November per the chart below as increased Covid case counts have led to a return of lockdown measures in various states, leading to less hiring. 245,000 jobs were added during the month, below expectations of 460,000 and a sharp drop from 610,000 in October. This was the lowest monthly addition since the April crash:



President-elect Joe Biden called the November jobs report 'grim' and said it shows 'there's no time to lose' for Congress to pass a new Covid relief bill. More encouraging news came on this front on Friday with momentum building towards a compromise fiscal stimulus plan totalling around $900bn.

We saw another positive week for equity markets, with cheaper regions that lagged in the first half of the year outperforming again, powered by positive vaccine news. Latin American equities led for a second week in a row with a 4.8% return in Pound terms, with UK equities the best of the developed market regions. The FTSE 100 and 250 indices rose by 2.9% and 3.7% respectively despite Brexit volatility towards the end of the week.

Japan was the worst performing region with a 1.6% loss, though this was largely currency related as the Yen dropped in value by 1.2% against Sterling. The same was true for Asia and US equities which saw muted weekly returns as their respective currencies fell against the Pound.

The Pound has acted as a 'risk on' currency this year, rising and falling with changes in news flow and sentiment, with this volatility contributing and detracting from overseas equity and fixed income holdings in turn as volatility has remained high.

Government bonds fell during the week as the risk-on mood prevailed; Gilts by 0.8% and their inflation-linked counterparts by 1.3%. While there may still be some rising of bond yields to go, we would expect that central bank purchases under quantitative easing programs will keep them effectively capped at a relatively low level.

Finally, gold and silver prices bounced strongly from oversold positions as noted last week; gold by nearly 3% and silver by more than 7% in local currency terms.

We expect that all eyes will be drawn to the culmination of Brexit negotiations this week, with markets starting on an uneven keel due to the inherent uncertainty. A 'deal' would of course be a net positive for risk assets, and while a 'no deal' would initially be a net negative, we do not believe the frictions stemming from this outcome would be insurmountable in the medium term, particularly given the preparation that has already been undertaken. Regardless, the key to moving through the period of inevitable volatility will be appropriate diversification across asset classes and currencies; something which we are constantly focused on.

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