Market Update

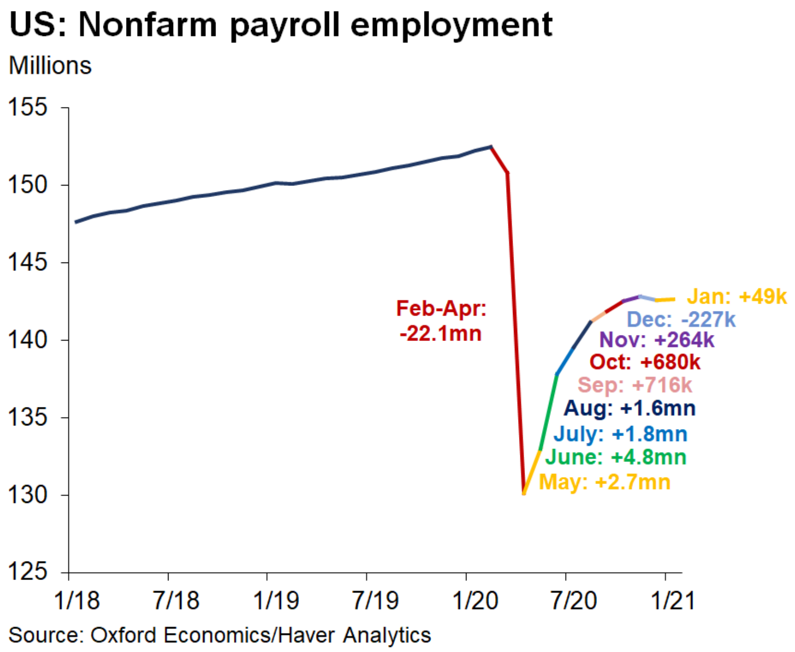
08 February 2021

The past week saw previous extremes melt away – save a brief spike in the silver price – with equity markets generally rising on the increased chances of President Joe Biden's US stimulus package passing through Congress and better Covid news flow.

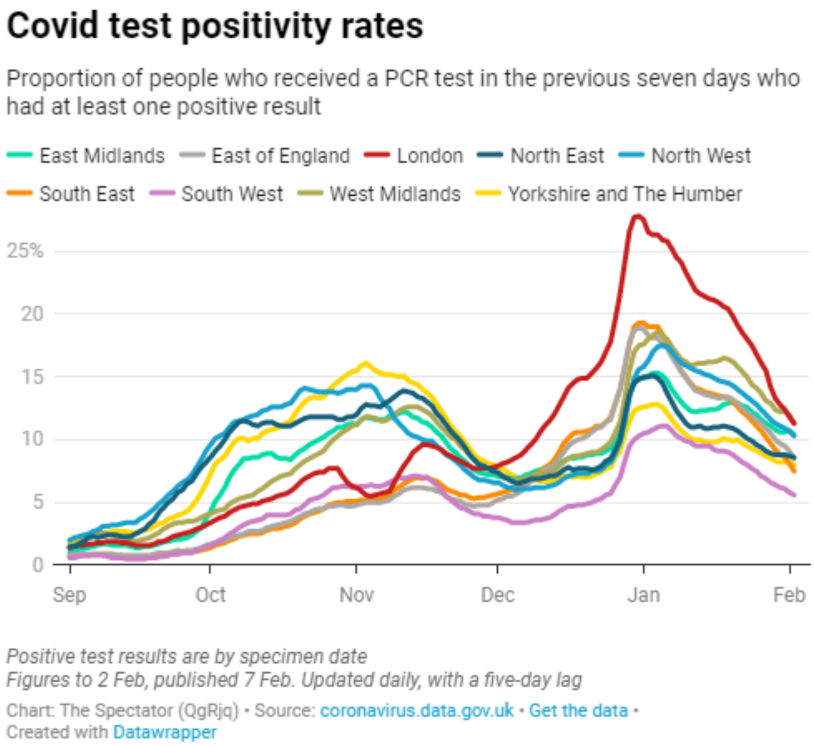
President Biden's attempts to secure bipartisan support for his $1.9tn plan failed despite various outreach attempts, with Republican Senators countering with a $600bn proposal – very light on support for consumers and aid for State and local government. This led to the Democrats looking to push the measures through via the budget reconciliation process, which only requires a simple majority to pass in the Senate, rather than the usual 60/40 split.

Commentators had warned against even this process being straightforward for the Democrats, as they need everyone in the Senate to support the measures, with one Senator in particular – West Virginia's Joe Manchin – pushing back on the size of stimulus cheques. However, the package took a major step forward on Friday with an early morning vote in the Senate along party lines that showcased the Democrats' ability to proceed on a bill without Republican support. Senior Democrats now expect Congress to pass the stimulus bill by mid-March, in time to replace unemployment benefits that expire at that point.

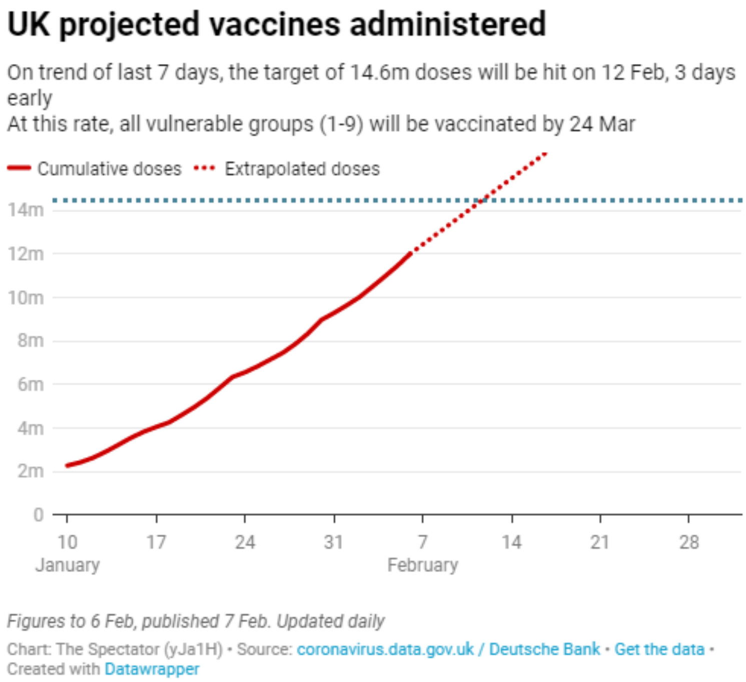
The Senate vote came hours after the US jobs report came in below consensus expectations of 105,000, with 49,000 jobs added, most of which came in the Government sector. Previous months' jobs numbers were also revised downwards by nearly 160,000, leaving the US economy nearly 10m jobs short of pre-pandemic levels. Somewhat counterintuitively, equity markets rose on this disappointing number, as investors price in bolstered chances of more economic stimulus:



Also contributing to strong equity returns was cautiously positive Covid news flow, as vaccines continue to be rolled out amidst much scrutiny of efficacy. Infection rates continue to decline globally, perhaps aided by winter seasonal effects in developed markets now beginning to wane, with positivity data and hospital numbers also falling, particularly in the UK:



Vaccination rates also remain very strong in the UK, with the chart below showing we are on track to beat the Government's vulnerable person target by 3 days:



Data released during the week from an Oxford University study showed that the AstraZeneca vaccine provides 76% efficacy against symptomatic infection for 3 months after a single dose, with efficacy improving when a second jab is given. More importantly, none of the 12,408 study subjects vaccinated with a single dose were hospitalised from 22 days after immunisation. Supporting the UK's decision to extend the interval between doses, efficacy increased from 54.9% to 82.4% when spaced 12 or more weeks apart, compared to less than 6 weeks. Finally, and possibly of most relevance to lockdowns, the data suggested that the vaccine reduces transmission by 67% after the first jab.

These results were tempered by less positive news of the AstraZeneca vaccine's efficacy against the South African strain. Full data is yet to be released but as reported the vaccine offers 'limited' protection against mild disease caused by the variant, though none of the 2,000 trial participants were hospitalised or died. Professor Sarah Gilbert, who designed the Oxford/AstraZeneca vaccine announced over the weekend that the team are already developing a 'tweaked' version that should prove effective, though it will not be ready until the Autumn. Professor Gilbert said that the new version could be rolled out rapidly, making use of protocols used by the flu vaccination programme, known as strain change, which sees new versions of the jab rolled out each autumn.

This news has not yet dampened investors' spirits as equity markets rose strongly, led again by Asia where stocks rose by more than 5%. The US was close behind with a 4.7% gain, with the UK's mid-cap FTSE 250 index also performing well; up by 4.2%. European equities were laggards again, returning 2.5%, with the FTSE 100 also struggling, partly due to a stronger pound, rising by just 1.3%.

Large negative moves were seen in UK Government bond markets as the Bank of England's monthly meeting produced no new developments on QE purchases or the imposition of negative interest rates, disappointing some market participants. Gilts fell by 2.5% and inflation-linked Gilts by 2.9% as the BoE also provided more optimism in their latest economic forecasts, now expecting GDP to rise faster than anticipated in the second half of 2021. Of course, none of this means that the Bank is itching to tighten policy – far from it – stating once again that this will not be considered until it is 'achieving the 2% inflation target sustainability'.

Sentiment remains positive at the start of the current week, with corporate earnings updates flowing in; thus far proving positive overall, albeit still with some uncertain forward guidance. We continue to remain watchful for hints from the Government about the prospects for normalisation over the coming months as the UK remains in front of most nations on vaccine roll outs. As we have said before, economic reopenings are crucial to equity market expectations in particular, and guidance in this area will drive prices, one way or the other.

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