

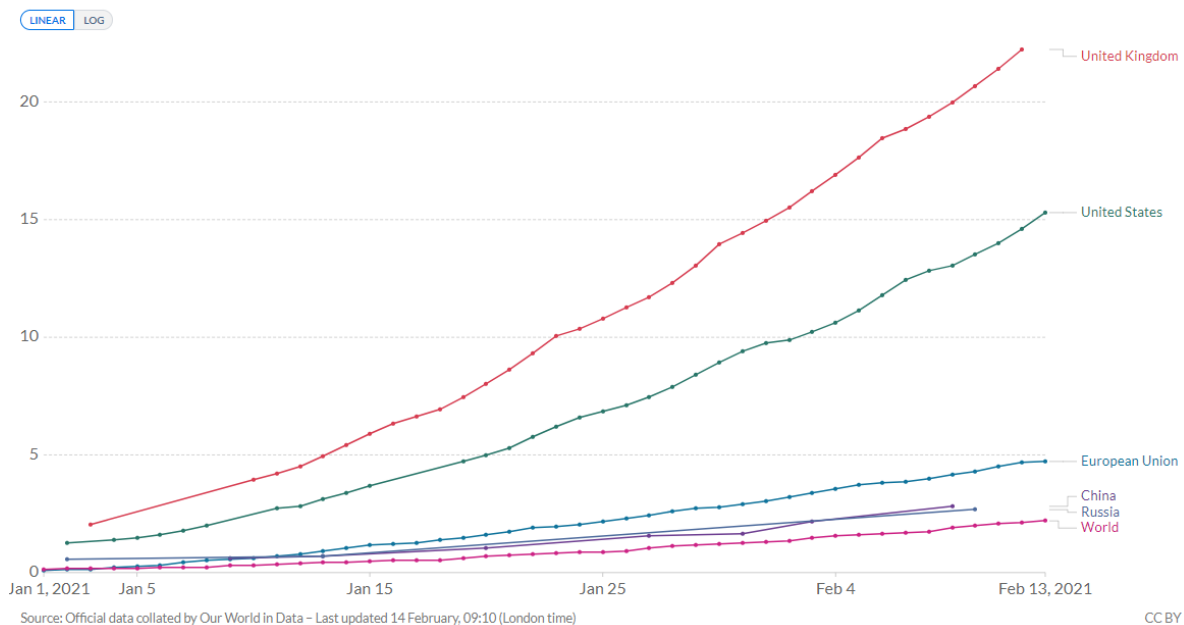
# Market Update

15 February 2021

Boris Johnson hailed a ‘significant milestone’ over the weekend as the UK recorded 15 million Covid vaccinations, cementing a record for delivering one of the most successful immunisation programmes in the world. More than 25% of the adult population has now received at least one jab, with England and Wales meeting their target of reaching the top four priority groups, including the over-70s, by 15<sup>th</sup> February:

Cumulative COVID-19 vaccination doses administered per 100 people

This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).



Another 17 million vaccinations are planned by the end of April, covering 99% of those most at risk of dying from Covid, with all adults to be offered a first dose by the autumn. As it should, attention has now turned back to the need for rapid economic and societal normalisation, with 63 MPs signing a letter to the Prime Minister saying there was ‘no justification’ for not lifting all Covid restrictions by the end of April when the Government hopes to have vaccinated everyone over the age of 50.

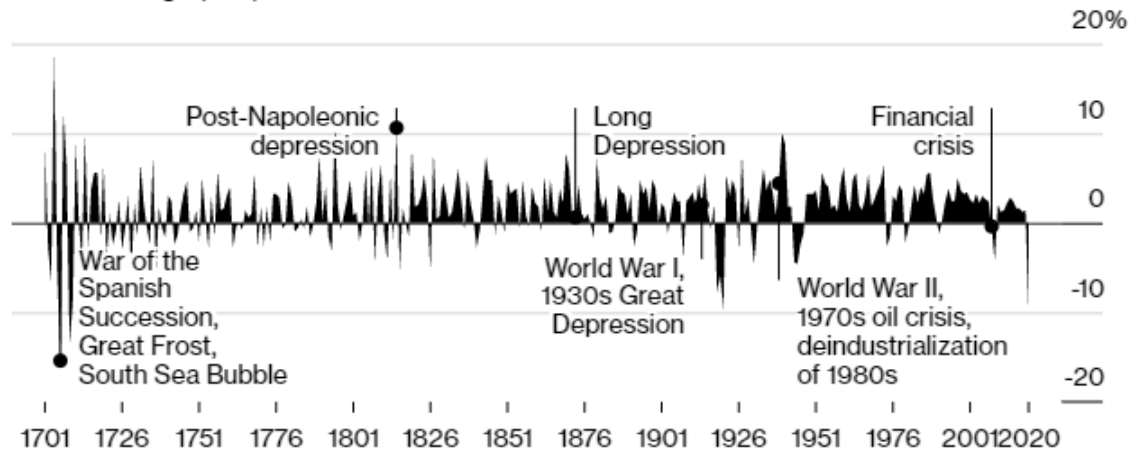
The Government is set to lay out a road map for exiting the current restrictions on 22<sup>nd</sup> February that is expected to be very cautious. Schools are touted to reopen on 8<sup>th</sup> March, with people allowed to meet one-to-one outside. Households are not initially expected to be allowed to mix either inside or outside with anyone else, but there is hope that hospitality venues will be allowed to operate from April, with non-essential retail and other recreational activities the same.

An argument could be made that the UK’s reopening is too cautious given the vaccination numbers above, coming amidst confirmation that 2020 saw the worst GDP outturn for 300 years – a drop of 9.9%:

## Worst Since 1709

The coronavirus-battered U.K. economy contracted by 9.9% last year

■ GDP change (YoY)



Source: Office for Budget Responsibility, Bank of England, Office for National Statistics

While a poor result, this outcome is better than some apocalyptic predictions from the spring and summer of 2020; positively impacted by GDP growing at double the pace expected in the fourth quarter, showing signs of resilience to Covid restrictions. The economy grew by 1% from October to December, including a 1.2% month-on-month expansion in December alone, driven by strength in the construction sector and government spending.

The Bank of England's latest forecasts suggest that the economy is likely to shrink in the first quarter of 2021, but that the successful vaccine rollout and a surge in household savings during lockdowns could power a sharp recovery thereafter. Andy Haldane, the Bank's Chief Economist, noted that £250bn of consumer spending could be unleashed, and that GDP growth could rise into the double digits.

In the US, Donald Trump was acquitted by the Senate in his second impeachment trial, with the vote falling 57-43 in favour of conviction but falling short of the required two-thirds majority. Significantly, seven Republican senators joined with Democrats and independents in finding Trump guilty on the single charge of inciting the 6<sup>th</sup> January riots - the most bipartisan rebuke ever delivered in an impeachment process.

The acquittal leaves the door open to Trump running for President again in 2024, but also means that the US Congress is now free to focus on passing President Biden's stimulus package, now in the hands of the House budget committee.

In markets, Asian equities proved strongest again, driven by Japan whose index rose by just over 2% in Pound terms. Latest data show that the Japanese economy grew by 12.7% annualised last quarter, cementing a relatively positive 4.8% loss for 2020 as a whole, beating expectations. Sentiment was further boosted by news that the country will start its vaccination programme this week after finally approving the Pfizer jab. The Nikkei 225 index now stands above the 30,000 mark for the first time in more than 30 years, and while Japanese stocks are not as cheap as they once were, they still trade at a significant discount to their US counterparts.

Other developed market indices were further back, with European and US equities rising by 1.0% and 0.4% respectively, while UK equity returns were bifurcated by market-cap; the FTSE 100 rising by 1.6% but the FTSE 250 falling by 0.1%.

Fixed income markets generated positive returns for the week, with UK government bonds recovering some of the losses seen in recent weeks. Corporate bond returns were more muted. Finally, precious metals prices oscillated about the zero bound, still struggling to find direction as bond yields and currencies remain volatile.

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At the aggregate index level, equity markets now look relatively expensive on a forward-looking basis, despite high levels of earnings growth forecasted across the board. This is generally being driven by pockets of 'growth' stocks across regions, with some elements here looking extremely stretched on valuation metrics. Opportunities certainly still exist as economies reopen and growth rebounds, but on balance these will be in cheaper 'value' stocks – not just to be found in traditional cyclical industries but in sectors like information technology where the most popular stocks have risen far above consensus fair value estimates.

## **Oliver Stone**

Head of Portfolio Management

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