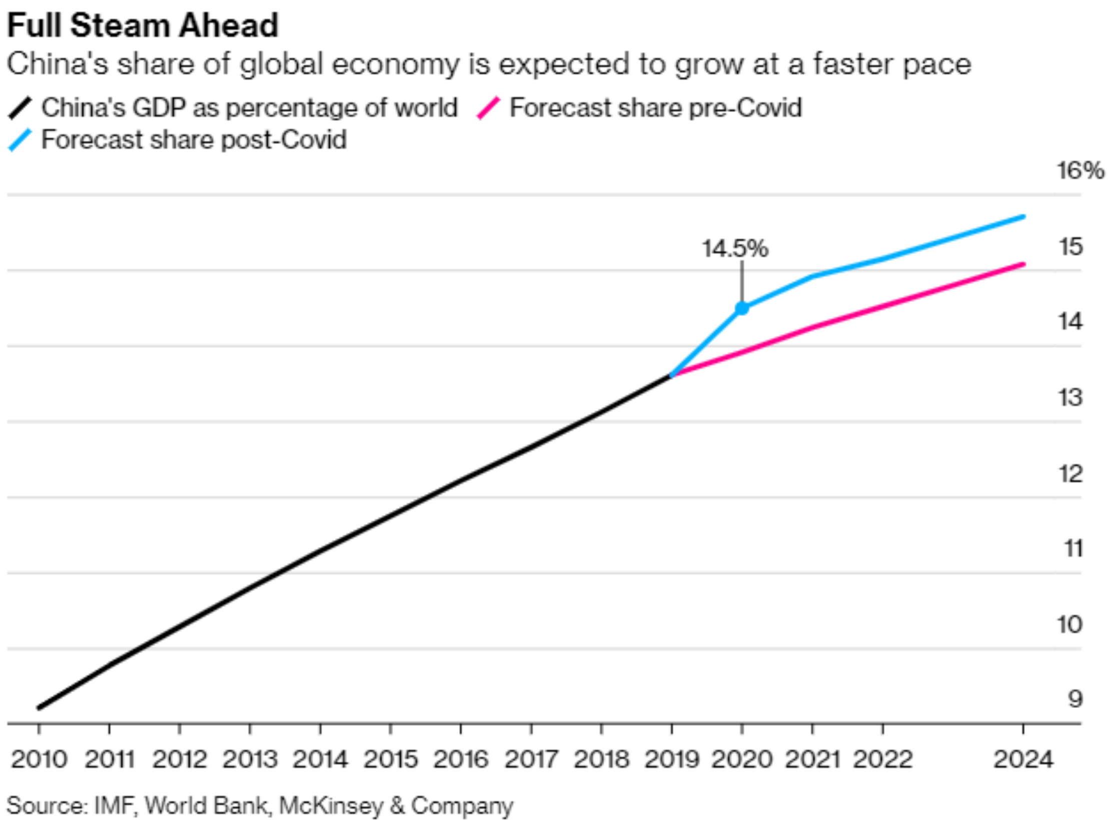
Market Update

18 January 2021

As has been seen at various points in the last year, equity market returns last week were bifurcated broadly along geographic lines, with mainly Eastern regions that have handled Covid well outperforming those Western regions that have not.

Asian, Emerging Market and Japanese equities all provided positive returns of between 0.3% – 0.6% in Pound terms, driven by continued Chinese strength despite a new lockdown being imposed in Shijiazhuang, the capital of Hebei province, after 500 new cases were found. Over the weekend Chinese GDP data were released showing 6.5% growth in the final quarter of 2020 from a year earlier, and propelling growth to 2.3% for the full year. While this is the slowest pace in nearly four decades, the parlous state of the rest of the world means that China increased its share of the world economy at the fastest rate on record, according to World Bank estimates in the chart below. Indeed, based on IMF projections, China will now overtake the US as the world's largest economy by 2028, two years earlier than previously predicted:



China's growing strength throws its fractious relationship with the US into sharp relief; something that has been a focal point of Donald Trump's years in the White House, but that shows few signs of softening under Joe Biden.

Conversely, developed market equities performed poorly in absolute and relative terms. The UK was worst, with the FTSE 100 and 250 indices falling by 2.0% and 2.1% respectively, giving up their relative gains from the week before as the messaging around lockdown enforcement and NHS capacity issues tightened. November's GDP data was also announced, showing a 2.6% month-on-month drop – ahead of consensus expectations of a 5.7% drop – leaving the economy 'just' 8.6% below the pre-crisis peak.

This comes in the face of positive vaccine roll-out data that shows the UK is inoculating around 300,000 per day; exceeding expectations for 2 million doses per week. This week, a new phase begins as more than 5.5 million clinically vulnerable people and over-70s will be invited to get their jabs, and 10 new mass vaccination sites open, including Blackburn cathedral, St Helens rugby ground and Taunton racecourse; each capable of serving thousands of people every day. Sir Simon Stevens, NHS England Chief Executive, also revealed the NHS would start round-the-clock vaccination programmes in hospitals within 10 days.

As the Government revealed on Sunday that more than half of 2.8 million over-80s had received their first jab, there is increased optimism that their target of vaccinating the 15 million most vulnerable people – including all those aged over 70, NHS and care workers, care home residents and those shielding – with at least one dose by February 15th can be met. These four cohorts account for nearly 90% of Covid-related deaths.

European equities fell by 2.0% in Pound terms, suffering from a sub-optimal vaccine roll-out programme and internal political issues. European vaccine procurement issues have been well documented, with confusion around the process' ownership leading to significant delays. The situation worsened last week as Pfizer notified EU officials that it will be unable to meet their near-term delivery targets due to a manufacturing upgrade.

On top of this, political turmoil at the national level has resurfaced, with the Dutch Prime Minister Mark Rutte resigning just two months before the country's elections over the mismanagement of childcare subsidies, and Italy's fragile coalition government close to collapse after former Premier Matteo Renzi said his Italy Alive party was withdrawing support.

Finally, US equities fell by 1.4% as the country prepares for Joe Biden's inauguration on 20th January. The incoming President announced plans for a $1.9tn stimulus package, including $1tn for households in the form of $1,400 direct payments, and $440bn for small businesses. Despite Democratic control of Congress, it won't be all smooth sailing for the plan as moderate Democrats expressed some opposition to the quantum of stimulus, though the measures are still expected to pass.

One potential distraction is likely to be the US Senate impeachment trial for his predecessor on a single charge of incitement of insurrection for his role in the Capitol riot. Donald Trump is the only US President to be impeached twice, and a conviction could mean a legal barring from holding federal office again, preventing another Presidential run in 2024.

Amidst a trickier week for equities, lower risk assets also struggled, with UK Gilts oscillating about the zero bound and other bond markets falling as measures of interest rates continued to tick upwards. Precious metals provided some protection in the form of silver, which rose by 1.0%, though mining equities fell sharply.

We hope that the week ahead will continue to see positive momentum for vaccination programmes, particularly at home where, pleasingly, the UK is currently a global leader. Should targets be met, restrictions could be eased through February into March, allowing crucially for a normalisation in activity. As we mentioned last week, ongoing government support will be vital to support those sectors and businesses hardest hit in the months ahead, though significant damage has already been done in many cases; we must hope that the summer will see businesses able to fully enjoy consumers' significant pent-up demand.

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