

# Market Update

## 21 December 2020

After a positive week for risk assets, most notably again in UK equities and the Pound, the picture changed rapidly for the worse over the weekend as a full lockdown in London and surrounding counties was announced, and Brexit talks remained in deadlock despite yet another unofficial deadline of Sunday 20<sup>th</sup> December.

In a sudden turnaround, the Prime Minister cancelled plans to allow families to see each other over the festive period as the Government warned that a new strain of Covid was 'out of control'. More than 16 million people are now required to stay at home as an immediate 'Tier 4' lockdown came into force at midnight on Sunday 20<sup>th</sup> December, affecting London and southeast England. Household mixing is banned, and travel is heavily restricted, with all non-essential shops closing – yet another body blow for retail businesses at what is usually their busiest time of the year.

Similar restrictions were imposed in the other home nations, with Scotland announcing travel restrictions with England, and Wales imposing a 'level four' national lockdown after infection rates in the south moved sharply higher; the latest data suggests that more than 1% of the population of several local authorities in Wales is testing positive every day.

Countries across Europe and beyond began closing their borders to travellers from the UK over the weekend, with crucial freight transport routes also affected. France, Belgium, the Netherlands, Germany and Ireland were among 11 European countries to halt flights and most freight lorries, trains and ferries. The French ban is particularly severe with all travel blanket banned for at least 48 hours, causing disruption at Britain's ports, including Dover, meaning truck-borne goods will be held up at the border alongside their drivers for a full two days. Only unaccompanied freight will be permitted to cross the Channel.

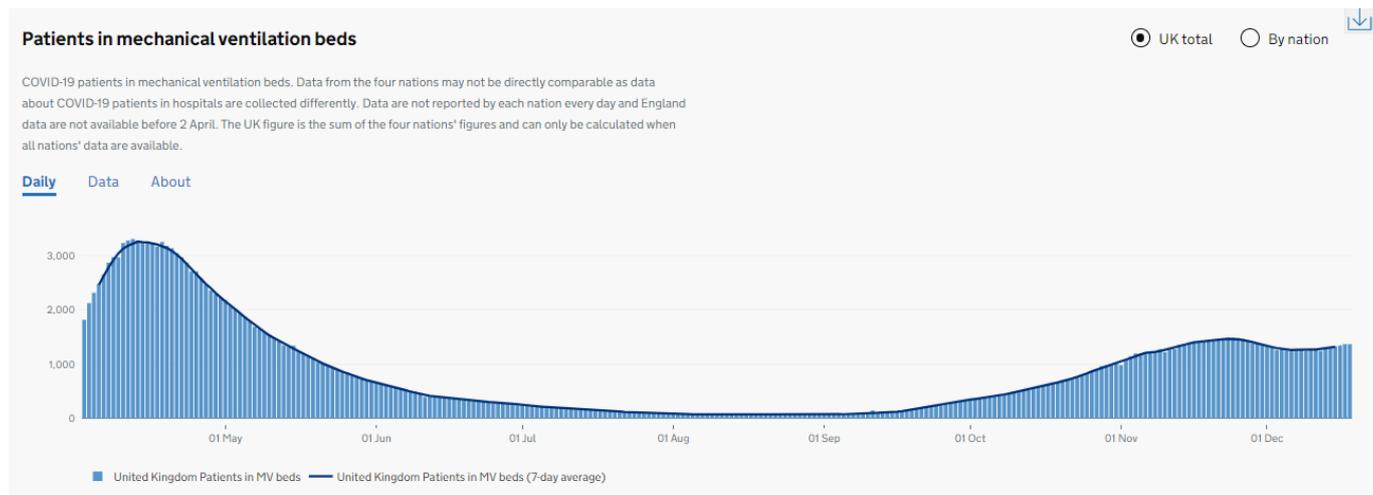
The Government has stated that the UK's supplies of the Pfizer Covid vaccine will not be affected by the travel bans given that the vast majority of it has been arriving by unaccompanied containers which remain free to travel. Separate to this though, the Department of Health said it had contingency plans in place, if necessary, to airlift the Pfizer vaccines from Belgium using military aircraft if the ban stayed in place for longer than 48 hours.

In spite of the media hysteria around the recent rise in Covid cases, there is currently no evidence to suggest that this variation in the virus is more dangerous. Many thousands of mutations have already arisen, as they do with all similar viruses, and importantly, vaccines are still expected to be effective. Scientists urged calm, noting that no single mutation would render all immunity and antibodies useless, with some going further, describing this instance as 'minor'.

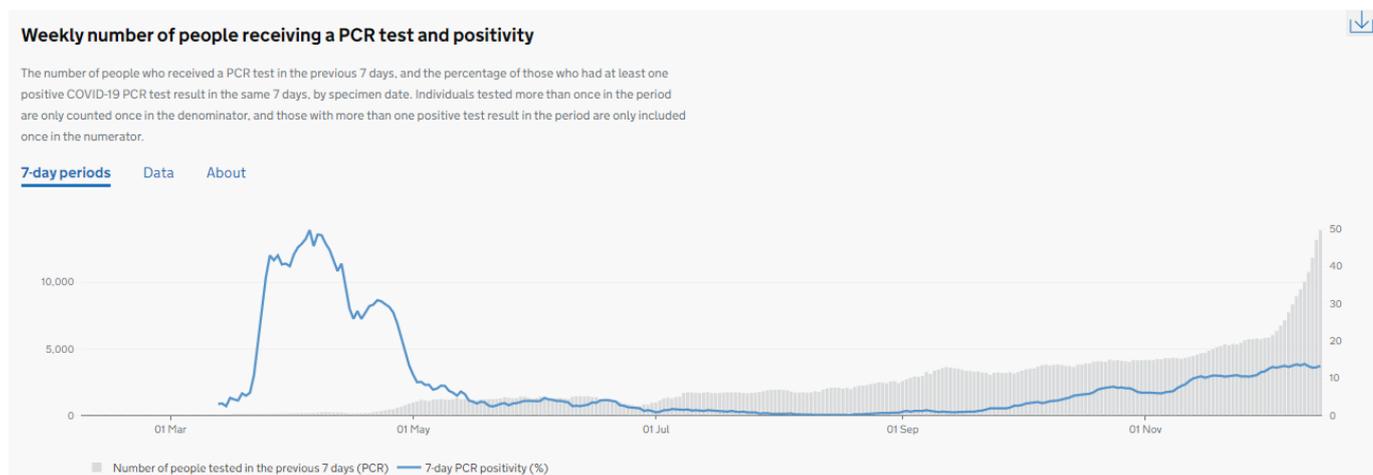
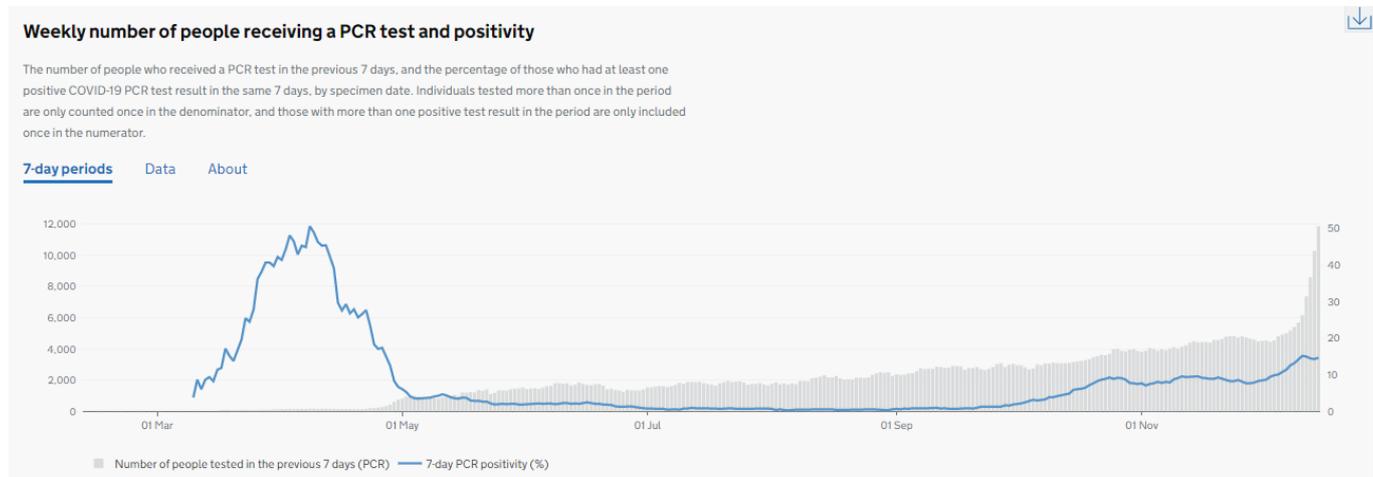
The estimate of greater transmissibility is based on modelling and has not yet been confirmed by lab experiments. Muge Cevik, an infectious disease expert at the University of St. Andrews stated that some of the transmissibility data 'might be related to human behaviour', perhaps hinting at the anecdotally lower levels of compliance with government restrictions. Indeed, in South Africa where a similar mutation has been observed, health authorities were quick to note that human behaviour was driving the epidemic – in particular mass year-end parties held by students.

There has undoubtedly been a rise in new cases across the UK, with numbers of patients in hospital with a positive test having risen, though severe case numbers remain dampened relative to the Spring as the chart below shows; a testament to much improved treatment knowledge and practices. There is also some suggestion that the rise in

Covid patients is at least partially offsetting a fall in 'other' hospital patients, with respiratory illness levels running lower than normal for this time of year:



Also in mitigation and for some perspective, some of the worst affected local authorities in England by case rates have seen enormous rises in testing as mobile units have been brought in to offer anyone a PCR test, as in Essex for example. This has perhaps inevitably led to a rise in new cases, though no information is available on whether they are symptomatic or asymptomatic. Importantly, the much increased testing does not appear to have led to a concerted rise in the positivity rate – i.e. the proportion of positive tests – denoted by the blue line in the charts below. The charts show figures for PCR tests conducted on a weekly basis and the positivity rate of those tests in Thurrock and Basildon – two areas with very high infection rates:

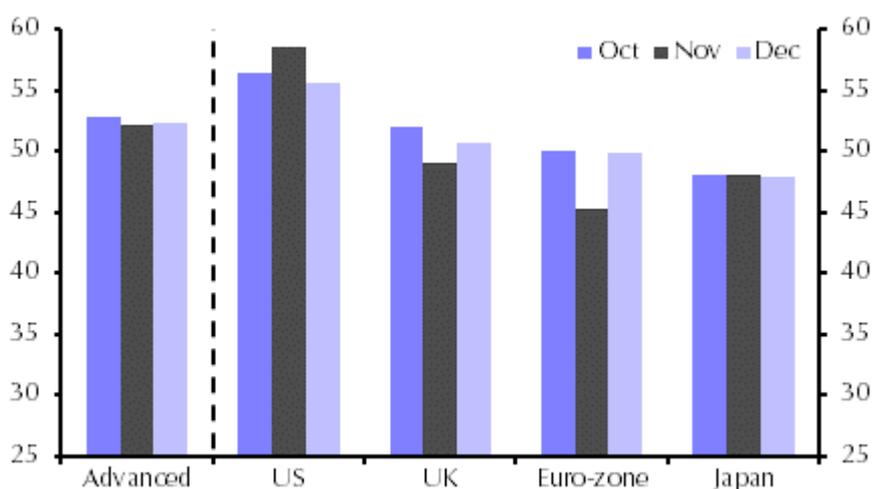


Away from Covid, talks between the UK and EU will resume on Monday 21<sup>st</sup> December after both sides missed another deadline to reach a post-Brexit deal with few signs that either is ready to compromise. Disagreements remain on access to British fishing waters and limits on state subsidies for business.

Also over the weekend, Congressional leaders in the US reached a deal on a roughly \$900bn spending package to bolster the US economy, with a vote expected on Monday 21<sup>st</sup> December. The plan would provide direct payments of \$600 to most Americans and \$300-per-week in enhanced unemployment benefits through March, while expiring programs for gig workers and long-term unemployed would also continue. There would be \$284bn for the Paycheck Protection Program that provides forgivable loans to small businesses along with funds for transportation (including airlines), vaccine distribution, schools and universities, and food aid.

Finally, positive economic data in the form of 'flash' PMI business surveys were released last week that revealed a recovery in European and UK services business sentiment and the continued resilience of manufacturing businesses. This meant that Composite scores rose from November levels as the chart below shows, pointing towards an improvement in business conditions:

Chart 1: DM Composite PMIs



As mentioned at the top of this note, we saw another positive week for risk assets, with the UK a standout in terms of equity performance. The Pound was materially stronger against most major currencies, including moves of 1.11% against the Euro, 2.08% against the Dollar and 1.53% against the Yen, boosting the relative performance of domestically focused UK equities. Given this Pound strength, the FTSE 250 rose by 2.55% - head and shoulders above other regions – with European equities rising by just 0.34% in Pound terms, and US, Japanese and Asian indices all *falling* in value by between -0.76% - 1.49%.

Fixed income sectors broadly fell in this more positive equity market environment, with UK government bonds bearing the brunt; Gilts fell by 1.60% and inflation-linked Gilts by 2.27%, with corporate bond indices also dropping in value. Conversely, gold and silver prices reversed some of their recent weakness, with silver moving sharply higher in Pound terms by 5.87%, and gold by 0.38%.

Financial markets have started this week in a resolutely risk-off mindset given the events of the weekend, and this week may see further disheartening headlines serving to exacerbate this mood. Nevertheless, the vaccine rollout in the UK remains strong, with up to 500,000 having received their first jab by 20<sup>th</sup> December, and distribution only planned to increase from here. Reports also suggest that the AstraZeneca/Oxford vaccine is expected to gain approval within days of Christmas, which will prompt mass vaccinations to begin on a scale hitherto unseen, using football stadia and other such sites along with the military's assistance to inoculate the most vulnerable as quickly as possible. While the short-term outlook is gloomy, the medium-term looks decidedly brighter, which is what we must focus on in the days ahead.

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