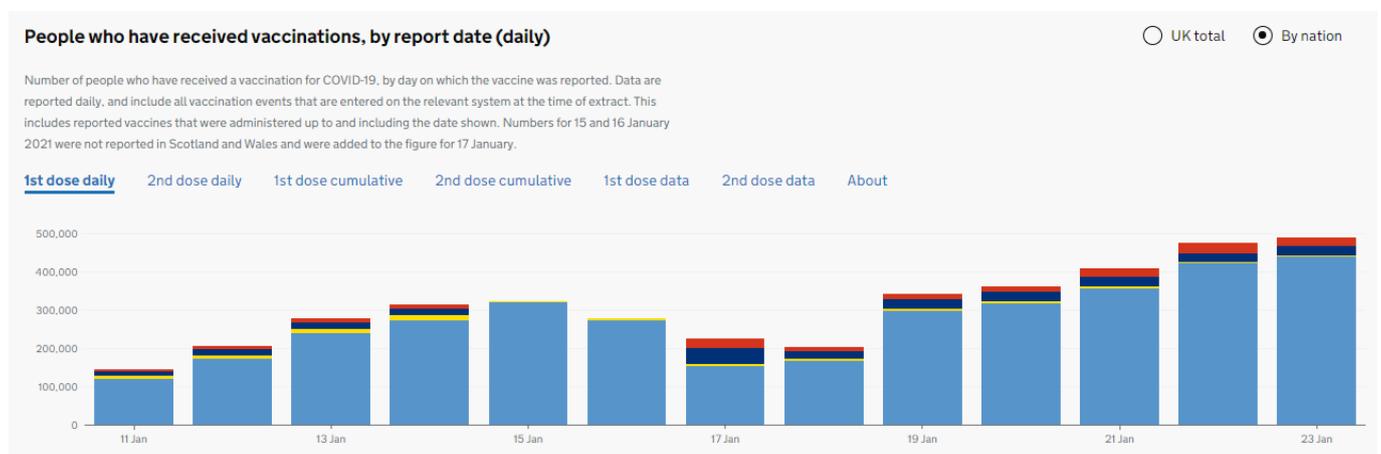


# Market Update

25 January 2021

The UK's vaccination programme continues to rapidly scale up, with close to 500,000 doses administered on Saturday 23<sup>rd</sup> January, and more than 6.8 million in total. This is around 10% of the population and crucially includes nearly 75% of over-80s and two thirds of elderly care home residents, who between them represent the largest portion of the most vulnerable:

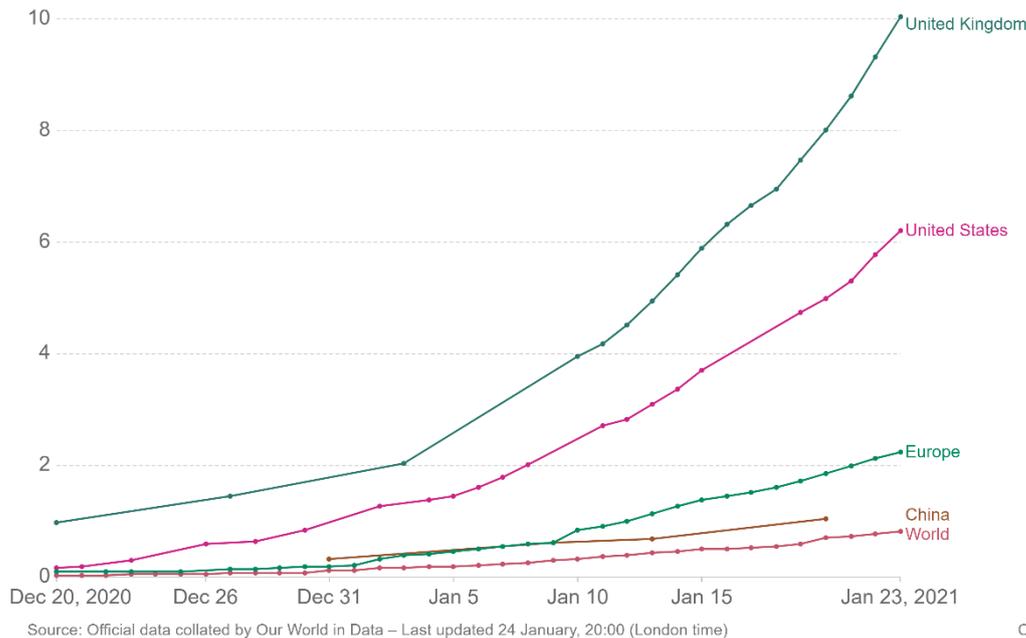


We remain just about on track to meet government targets, though supplies of both Pfizer and AstraZeneca vaccines are set to slow in the coming weeks as manufacturing bottlenecks appear. Other countries are worse affected, with Europe for example missing Pfizer doses as we wrote last week, and now also at risk of receiving many fewer AstraZeneca doses than previously planned due to production issues. Only 31m deliveries will be made of a planned 80m by the end of March, though the EU has not yet approved the vaccine.

The majority of the UK's doses are manufactured domestically, meaning less impact to supply, and while some controversy still surrounds the Government's strategy to stretch the time between first and second jabs, thus far the vaccine roll-outs are a great success story for Britain:

## 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).



This good medium-term news as always for now is countered by less positive near-term news. Cases are trending downwards, while deaths and hospital data seem to be plateauing, but there is no fixed end in sight for lockdown restrictions, with the Deputy Chief Medical Officer Jonathan Van-Tam instructing those already vaccinated to carry on ‘as if you have the virus’.

While such language for now is presumably to try to discourage premature changes in behaviour in the short-term, it has been reported that we face a three-month lockdown ‘halfway house’ after Easter, with a full reopening delayed until all over-50s have had their second dose of the vaccine. The Government is considering proposals to begin reopening the economy (again) in April, under similar restrictions to those in place over the summer of 2020, with social distancing measures in force in those pubs and restaurants still able to open. Separately, the Health Secretary warned it would be a ‘long, long, long’ time before case numbers are low enough for the lockdown to be fully relaxed, and that he was worried about new virus variants yet to be uncovered.

Assuming vaccines remain effective and roll-outs well organised, we should be in a position very soon to start rolling back restrictions, and allowing those hardest hit hospitality, leisure and entertainment sectors to make up for much lost time, aided by significant government support. We see a risk developing that restrictions are kept in place for much longer than may truly be needed, which will dampen the outlook for economic recovery and therefore prospects for financial markets. The reasons behind the authorities’ reticence to normalise more quickly are obvious, but each day that we do not, allowing the view that Covid is the *only* risk that must be managed above all others to become increasingly entrenched, more permanent economic, health and societal damage is done.

Elsewhere, President Joe Biden took office on 20<sup>th</sup> January and immediately issued a sweeping set of executive orders relating to matters from Covid to immigration, several of which reversed or refashioned many of his predecessor’s most criticised policies. Orders were signed to overhaul and unify the US approach to virus testing and stabilise supply chains for critical medical supplies, while the President committed to immunise 100m people in 100 days. On immigration, travel restrictions from some predominantly Muslim countries were ended, while an immigration bill that would provide a pathway to citizenship for roughly 11m people living illegally in the US is being proposed. Finally, two further orders were signed that increases food aid for children, and expanded protections for federal workers, including promoting a \$15 hourly minimum wage. We still await the advancement of the \$1.9tn stimulus bill through Congress, which, despite now enjoying a Democrat majority, will still be tricky to see through.

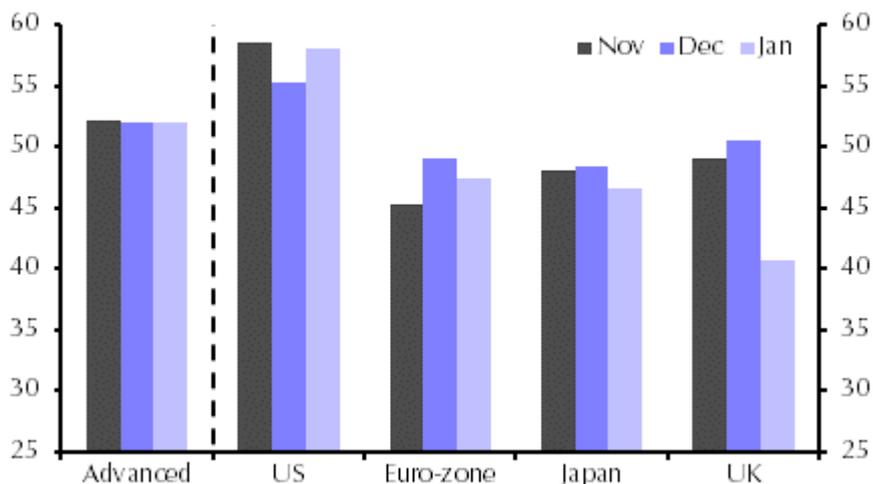
As last week in markets, Asian and Emerging Market equities outperformed all other regions, rising by 2.7% and 1.9% in Pound terms respectively, though most equity markets were positive for the week. The US gained 1.3% as

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investors broadly reacted positively to President Biden’s first actions, and PMI business survey data was robust; the composite measure incorporating data from manufacturing and services businesses rising in January.

European and UK equities were flat or negative for the week, losing again in relative terms as lockdowns were extended or reinforced, despite the UK’s vaccine picture being positive. As a region, the UK is still showing good absolute and relative performance since vaccine announcements were made in November 2020, rising ahead of the US and Asia since then, but as above, these gains risk being unwound if lockdowns continue indefinitely. Even as the US saw a rise in its composite PMI score for January, the UK saw a sharp drop as the chart below shows, with the impact being felt most notably in the services sector:

**Chart 1: Composite PMIs**



Source: Capital Economics

Government bonds proved lacklustre again, with UK Gilts falling by 0.3% and inflation-linked Gilts by 1.4%, though corporate bonds eked out small gains. Gold and silver prices both rose; the former by more than 2% and the latter by 0.8%.

This week has started relatively quietly but it would be prudent to expect more volatility to appear. Corporate earnings season is in full swing which will be most important to gauge sentiment on a forward-looking basis, and we shall be paying close attention to any trends that may arise.

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