

State of play



23 July 2020

Our Investment Specialist Simon Durling shares his thoughts in our latest weekly update.

COVID-19: Early vaccine tests provide hope albeit with a dose of caution

As gyms, swimming pools and leisure centres prepare to welcome their first post lockdown visitors this weekend, hopes of a long-term solution took a tiny but significant step forward this week. Globally there are 23 active vaccine trials underway, with two in the UK led by Oxford University and Imperial College London. The UK Government has already invested millions of pounds so far in the race to develop a successful vaccine.

Oxford University announced that initial testing involving 1,077 adults has produced promising results, with the vaccine stimulating robust immune responses and no serious side-effects in the phase-one trial. The researchers emphasised that it was not known whether these responses were sufficient to protect against COVID-19 but they said that the results were promising. Sarah Gilbert, Professor of Vaccinology at Oxford University, who is leading the project said, “it’s all very good news: the vaccine is behaving as we expected. That’s great. There’s lots more to do, but really it’s a milestone”. The subjects displayed sufficient levels of neutralising antibodies, thought to be critical in protecting against viral infection, to give researchers grounds for optimism. A second important aspect of the immune system, T-cells, were also mobilised, according to a study in The Lancet.

All of the scientists involved in vaccine development are wary of optimism leading to unrealistic expectations as nine out of ten attempts at producing a new vaccine fail. The question is why does this happen? The development of a vaccine traditionally is a very long process often taking many years with one false dawn after another. This crisis has prompted an extraordinary reaction from both

governments and the scientific profession, with unprecedented investment and resources being thrown at the development process to be able to successfully distribute a vaccine to immunise the entire population as soon as possible. The trial process is broken down into three key stages as outlined by Oxford University:

- **Phase-one** was a trial involving healthy adult volunteers which began in April. More than 1,000 immunisations have been completed and follow-up is currently ongoing. The next study will enrol up to 10,260 adults and children and will involve a number of partner institutions across the country.
- **Phase-two** involves expanding the age range of people given the vaccine, to include a small number of older adults aged between 56 and 69, and aged over 70, as well as children aged between 5-12 years. For these groups, researchers will be assessing the immune response to the vaccine in people of different ages, to find out if there is a variation in how well the immune system responds in older people or children.
- **Phase-three** will assess how the vaccine works in a large number of people over the age of 18. This group will assess how well the vaccine works to prevent people from becoming infected and unwell with COVID-19.

So, what happens if this doesn't work? If researchers are unable to show that the vaccine is protective against the virus, they would review progress, examine alternative approaches, such as using different numbers of doses, and would potentially stop the programme.

The UK Government announced new deals on Monday morning spreading their bets on three very different approaches to defeating COVID-19.

- The first is the agreement with AstraZeneca to supply 100 million doses of the Oxford University vaccine, which uses a safe virus to deliver the code for making a COVID-19 protein.
- The second approach includes 30 million doses of an "RNA vaccine" being developed by BioNTech and Pfizer. This involves injecting a small piece of genetic code into muscle cells, which then produce COVID-19 proteins.
- The final strand would allow the purchase of 60 million doses of a vaccine from Valneva, a French company that uses an inactive form of the virus to train the immune system.

The BioNTech-Pfizer and Oxford University-Astra Zeneca trials could be available sooner than Valneva's solution, possibly by the end of this year, but are far more experimental. The UK Government also secured the option to buy one million doses from AstraZeneca of an antibody treatment which could be used to protect people with compromised immune systems, such as cancer patients. The decision to place orders for several types of vaccine highlights the uncertainty of their success.

The agreements with German, American and French pharmaceutical firms were

one part of a number of initiatives which also included plans to sign up to half a million UK volunteers to take part in future vaccine trials. An NHS COVID-19 vaccine research registry was launched online allowing members of the public to register their interest and be contacted to participate in clinical studies.

The final piece of positive news in attempting to defeat COVID-19 came from the trial of the drug, developed at the University of Southampton, and involved a small trial of 101 patients which was found to dramatically reduce the chances of virus patients needing intensive care. Patients in hospital who inhaled a protein designed to stimulate the immune system were 79% less likely to deteriorate to the point where they needed ventilation. However, researchers said that larger trials were needed to be sure of its findings, with a lot of uncertainty about its effectiveness. Thus far, only Remdesivir, an anti-viral, and Dexamethasone, a steroid, have been shown to have a clinical effect.

Latest economic news

After a fourth night of tense negotiation, European Union (EU) leaders finally agreed a deal on an economic package to tackle the financial impact of the COVID-19 pandemic. The €750bn stimulus is split into a €390bn programme of grants and a further €360bn in low-interest loans. Many had warned that a failed summit amid the pandemic would have added to uncertainty over the EU's future after years of lacklustre economic performance and Britain's recent departure.

At one stage it looked likely that the summit had reached a stale-mate and would be forced to delay further talks until August. With 27 member states, each with the power to veto, the summit also exposed fault lines across the bloc that are likely to hinder future decision-making on finances as richer northern countries resisted helping out the poorer south. The Netherlands led a group of 'frugal' states, insisting that aid to the countries in the South should be mainly in loans, not in non-repayable grants. According to Dutch Prime Minister Mark Rutte, the gathering came within 20 minutes of breaking the record for the longest summit session set in 2000 in Nice.

French President Emmanuel Macron, who spearheaded a push for the deal with German Chancellor Angela Merkel, hailed it as 'truly historic'. Countries hardest hit by the pandemic, like Spain and Italy, are likely to benefit more than most in an attempt to bounce back from the deepest recession since World War Two. Leaders hope the recovery fund and its related €1.1tn 2021-2027 budget will help repair the continent's economies following the pandemic.

UK Government borrowing hit its highest level on record in April through to June this year according to official figures from the Office for National Statistics (ONS). In a measure of how big the fiscal response to this crisis is, the borrowing represents more in these three months than in any full financial year on record, excluding the two years of the great financial crash in 2009-2011. Borrowing in the first quarter of this financial year reached £127.9bn, £103.9bn more than in the same period last year and two times the total amount borrowed in the whole of last year.

The latest figures show that UK Government debt at the end of last month was £1.98tn, 99.6% of the UK's annual gross domestic product. Central government receipts fell by 16.5% compared with June last year to £49.4bn. VAT receipts fell 45.1% while PAYE income tax and corporation tax receipts fell by 1.6% and 19.2% respectively. At the same time central government expenditure rose by 24.8% to £80.5bn.

900,000 public sector workers will receive above-inflation pay rises this year. The Chancellor of the Exchequer, Rishi Sunak, said the increases were recognition for the 'vital contribution' they had made during the crisis. Teachers will be given a 3.1% rise; doctors and dentists 2.8%; and police 2.5%. Pay for the armed forces, the judiciary and senior civil servants will rise by 2%, and prison officers will receive 2.5%. With inflation at 0.6% and likely to remain low for some time, the rises will mean more money in real terms. Nurses and junior doctors were not included as they had already previously negotiated a settlement in 2018 and last year respectively.

NASDAQ continues the onward march to a new record

A near-8% surge by Amazon, lifted by a huge price target hike by Goldman Sachs, led the NASDAQ Index to a record close, up 263.90 points, or 2.5%, to 10,767.09 on 20 July. As at the time of writing, it has risen 63% since the lows on 23 March as investors recognise that many businesses have benefited from the virus outbreak as more and more people communicate and shop online. Whilst the gains in July thus far have been a more modest 4%, it remains a popular home for investors' money.

Global stock markets are broadly positive since the start of July, although most have made modest gains. Emerging markets have risen more than 5% (just ahead of the NASDAQ) encouraged by a weakened dollar and positive news about vaccine development. In addition, reassurances of further stimulus from China have helped grow confidence.

The tussle between positive news on vaccine development and uncertainty about the economic impacts acts as a break to investor momentum at present, with a very big cloud on the horizon if the unemployment numbers in the autumn emerge worse than expected. As has been the case for the last few months, markets remain very sensitive to news flow and predicting the outcome and direction at present is very challenging and should be approached with caution and an open mind.

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more**

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Note: Data as at 21 July 2020.



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