

State of Play



13 November 2020

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

Following the successful trials of a new style of COVID-19 vaccine from the developers Pfizer and BioNTech, stock markets celebrated as stocks rose but UK Prime Minister Boris Johnson urged caution as further hurdles lay ahead for the successful implementation.

Successful vaccine trial findings announced

Ever since the arrival of COVID-19 the world has been battling to strike a balance between simultaneously protecting lives and livelihoods. The latest data from the World Health Organisation (WHO) at the time of writing confirmed over 51 million people have tested positive for the virus worldwide, and sadly, 1.2 million people have died. The number infected is likely to be many times higher, as the level of testing carried out varies from country to country and many have been asymptomatic (presenting no symptoms).

The economic shock from the pandemic has forced millions to work from home and many others to lose their jobs as companies react to the slowdown in business and loss of revenue that followed national lockdowns and the subsequent loss of consumer confidence. As you can imagine for the economic outlook to improve it is crucial we have at least one successful vaccine being developed and deployed, to avoid many more months and potentially years of disruption to our daily lives.

After 43,000 people participated in the third stage of a vaccine trial being developed by Pfizer and BioNTech, preliminary findings show that the vaccine can prevent more than 90% of people getting the virus. Whilst all of the trial data will need to be further examined by governing bodies before full approval can be granted, the release of these findings and with no initial safety concerns, is likely to see approval rushed through in a matter of weeks so manufacturing

and distribution can ideally begin before Christmas. The Pfizer and BioNTech vaccine injects pieces of COVID-19's genetic code into the body which starts making viral proteins to train the body. This is a completely new technique. The Oxford University vaccine takes a harmless virus that infects chimpanzees, and genetically modify it to resemble COVID-19, in the hope of getting a response.

Pfizer and BioNTech believes it will be able to supply 50 million vaccine doses by the end of this year, and around 1.3 billion by the end of 2021. The UK should get 10 million doses by the end of 2020, with a further 30 million doses already ordered. Importantly the vaccine entails two doses, three weeks apart and its temperature needs to be maintained at -70 degrees at all times – making transportation problematic. Whilst there has been cases developed which can keep the doses (anywhere from 1,000 - 5,000 doses per case) safe for up to 10 days, these can only be opened for a maximum of one minute only twice a day.

Everybody responds differently to immunisation and age can be a big factor. In the past vaccines have been less successful with older people because an aged immune system typically does not respond as well. Given these challenges, Prime Minister Boris Johnson warned everyone to be cautious as there were more hurdles to overcome before the light at the end of the pandemic tunnel.

England is now one week into a national lockdown, which was reluctantly called by Prime Minister Boris Johnson in response to rising infection rates and more importantly a surge in hospital admissions. This is currently due to end on 2 December but will be subject to a government assessment of infection rates, hospitalisations and NHS capacity.

In response to the swiftly announced lockdown, Chancellor of the Exchequer Rishi Sunak announced the extension of the furlough scheme until the end of March next year. Whilst the UK Office for National Statistics (ONS) announced a rise in redundancies of 181,000 to 314,000 in the three months to September, there are approximately 2.5 million people still on the furlough scheme. Since February, the number of payroll employees has fallen by more than 800,000. Employers were starting to shed jobs as the furlough scheme was reaching the 31 October end date, sending the official unemployment rate to 4.8% in the three months to September. Most commentators expect further job losses over the next few months despite the extension of the furlough scheme.

US Election update

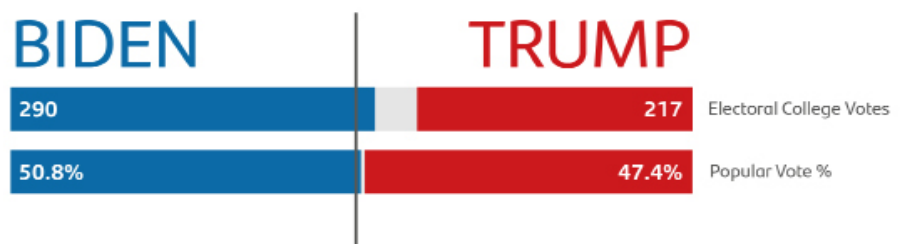
Just after 7am on 4 November (GMT) President Trump delivered a press briefing announcing that he had won the election and had approached the Supreme Court to stop counting votes, as he alleged widespread voting fraud (without presenting any evidence) that would 'cheat' the election victory from him. Since this speech the votes continued to be counted in the key outstanding battleground states of Wisconsin, Michigan, Arizona, Pennsylvania and Georgia - with the majority in favour of Joe Biden. Importantly, President Trump and his team have filed lawsuits in each of the key states, challenging in particular the votes received by mail which have been predominantly votes for Joe Biden as Republican voters preferred to vote in person and on the day of the election.

These factors painted a very different picture early on in the count as President Trump took an initial lead, in some cases by many thousands of votes. This

changed as the votes kept being counted and the predominantly Democratic postal votes started to mount. Many states counted the votes cast in person first and then the postal votes which created a false early picture that gradually changed as the hours ticked by leading to several days delay in arriving at a clear outcome. Even as I write this update, whilst the election looks like a clear win for Joe Biden, the drama continues as President Trump refuses to concede and allow for a peaceful transfer of power in time for the official inauguration on 20 January 2021. Many news outlets are expecting Joe Biden to end up on 306 Electoral College votes, ironically the same as President Trump in 2016 (a number which President Trump described at the time as “a landslide”).

Electoral vs Popular Votes

After 48 of 50 states
Source: BBC (As at 11am GMT 13 November 2020)



Historical convention expects the defeated candidate to call the winner and then make a concession speech, but these are not a legal requirement. Since being elected, President Trump has made a habit of ignoring many of the norms of political power so this reaction to a probable loss is not a surprise. The media has traditionally called the result of the election prior to every vote being counted based on analysis throughout Election Day and the subsequent night, but again there is no legal force behind this election call. A recount is expected in Georgia, and there are likely to be further legal challenges as the final votes are counted over the coming days. The deadline for resolving legal disputes is 8 December. The outcome is not official until each state certifies the count according to its own processes and deadlines. This year 14 December will be the last day where a formal vote in each state of the electors can be made, and when Joe Biden will likely be announced officially as the 46th President of the United States.

Importantly whilst the eventual likely departure of President Trump from the White House will for some be greeted with jubilation, the Democratic Party will be disappointed that the lead in the polls throughout the campaign and leading up to Election Day did not transfer into reality. President Trump performed far better than pollsters and political commentators had predicted preventing a ‘clean sweep’ for the Democrats. The US Senate seats that were up for grabs this time round did not turn blue, leaving the Republican Party still with a tiny majority. The Democrats actually lost some seats in the House of Representatives but maintained their majority leaving a Joe Biden presidency constrained and without the full mandate to govern without barriers.

Market update

Following the US Election last Tuesday, markets responded positively to a probable Joe Biden win, especially given the results expected in both houses leaves Washington divided. This means any Democratic agenda will be constrained and this is broadly positive for future corporate earnings. As expected, whilst the US Election represented a market risk in the event of a full scale contested election, it was always likely to be dominated by future COVID-19 vaccine developments and markets would return their focus back onto COVID-19 post-election.

This has proved to be the case with the best returns in a single day since March - following the positive trial findings from the Pfizer and BioNTech vaccine. Some of the worst hit sectors after the pandemic struck responded with strong gains across the board and albeit still some margin below their pre-COVID-19 levels, it was a signal to how important successful vaccine development and deployment are to the future of the world's economy and subsequent market value.

Markets are likely to remain extremely sensitive to any future vaccine news especially if any challenges or barriers to a swift deployment present themselves in the coming weeks. The current second wave and subsequent lockdowns are yet to appear in the economic numbers, especially on unemployment in the UK and abroad. Any extended lockdown periods are likely to weigh heavily on market sentiment in the remaining weeks of 2020.

Find out more

Listen here to our latest **Market Views** from our Portfolio Manager, John Mullins, as he shares his thoughts on the main themes dominating markets.

Note: Data as at 11 November 2020.



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