

State of Play



26 November 2020

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

As the UK Government announces an end to the national lockdown, small changes are made to the previous tier system - providing some businesses with a much needed boost.

National lockdown to end as planned on 2 December

As signposted by the national media over the weekend, Prime Minister Boris Johnson outlined to the House of Commons plans for what happens when the national lockdown ends on 2 December. In a statement marred by technology issues (it was delivered via video link due to a second enforced self-isolation period), the Prime Minister outlined the plan and tried to take questions from Members of Parliament (MPs) but Matt Hancock, the Health Secretary, had to step in as the link appeared to fail. The Speaker of the House, Sir Lindsey Hoyle, said 'Have you pressed the button by mistake Prime Minister? It's not our end Prime Minister, it could well be yours' and added 'Would Mr Hancock like to take over with the answer?'

The UK Government published a 56 page winter plan guided by three principle objectives: attempt to bring the infection rate or 'R' number below 1; find better ways to manage the virus; and try to minimise the economic harm caused by restrictions and the damage to children's education. Officials are relying on lessons being learnt from previous interventions supported by mass testing. The hope is that a more targeted approach will provide better protection through the winter and into the spring when it is expected that a mass immunisation programme will be in full swing.

When the current lockdown finishes on 2 December each area will then go back into the previous tier system with a few 'tweaks'. The tier that each area

will enter into after 2 December will in large part be dependent on some key measures to identify the appropriate level of restrictions. These data points will be: the 'R' number; cases in over 60's; cases by age group; positive cases per 100,000 of population; and NHS capacity. Unlike the previous experience of introducing the tier system where areas tried to negotiate terms, Mr Hancock assured MPs that there would be no haggling about decisions made on the basis of hard data.

In a slight change to previous rules, all tiers will allow the reopening of shops, gyms, leisure centres, swimming pools, sports pitches, hairdressers, beauty salons, and places of worship. Also, in a boost for outdoor sporting venues, limited crowds will be allowed back into stadiums subject to strict limits. The advantages of this decision sit firmly with smaller clubs as the maximum crowd can be 4,000 subject to 50% of capacity in Tier 1 and 2,000 in Tier 2. Many lower league football clubs in particular will be delighted they can readmit fans and commence earning much needed revenue which has been cut off by the pandemic since March.

Oxford University, in partnership with the drug firm AstraZeneca, announced successful trials in the third stage of vaccine testing which involved 24,000 people with an efficacy rating of around 70%. By accident, the test also suggested an even higher rate of success if a lower dose of the vaccine was given before a full dose four weeks apart raising the success to around 90%. This was based on a much smaller sample size, so will be checked before implementing. Approvals again are likely to be fast-tracked, especially given the UK Government has pre-ordered 100 million doses and now knows that this vaccine is significantly cheaper than the other two announced in the previous two weeks and can be stored successfully in a normal fridge. This vaccine prevented all serious infections of COVID-19 and demonstrated strong evidence of preventing transmission. This is more positive news providing light at the end of the tunnel for the UK Government and the public alike.

Compromise reached on the festive period

After much debate between devolved governments, scientific experts and 10 Downing Street, Prime Minister Boris Johnson announced a compromise to allow families to see their loved ones this Christmas. Three separate households will be allowed to see each other over a five day period between 23 and 27 December. They would have to create a 'Christmas bubble', stick to the chosen households and try to keep their contact to a minimum as experts warned that this will see a spike in cases directly after this pardon period is over and possibly a third wave of the virus in January, prompting another national lockdown. In weighing these risks ministers have recognised the mental and health impact on those who have suffered through this terrible pandemic, often isolated and alone as millions shielded for many months and continue to have to take precautions until a successful vaccine can be distributed to the population. In addition, people in Northern Ireland will have an extra two days grace allowing for travel between the mainland as for the first time in months the devolved powers and

Westminster finally agree on free movement of individuals to anywhere in the United Kingdom between these dates. Families will face tricky decisions over which set of grandparents to visit as bubbles cannot be mixed. New Year's Eve celebrations were all but cancelled as when the amnesty finishes areas and regions will return to the tiered restrictions that were in place prior to the festive holiday on 28 December.

US Election update

After three weeks of refusing to concede defeat President Trump has finally agreed to allow the transition of power to a Joe Biden Presidency to begin. As always, the method in which the news broke was typical of the President's time in office. Emily Murphy, an administrator of the General Services Administration (GSA), wrote a letter to the Democratic campaign acknowledging that Joe Biden had won but reassuring that she was under no pressure from the outgoing administration. This immediately prompted President Trump to tweet that he had instructed her to send the letter. Tweeting 'I want to thank Emily Murphy at GSA for her steadfast dedication and loyalty to our Country. She has been harassed, threatened, and abused — and I do not want to see this happen to her, her family, or employees of GSA... Our case STRONGLY continues, we will keep up the good fight, and I believe we will prevail! Nevertheless, in the best interest of our Country, I am recommending that Emily and her team do what needs to be done with regard to initial protocols, and have told my team to do the same'.

Whilst this allows \$10m of government funds set aside for the transition to be released, President Trump still stopped short of conceding defeat, despite losing the legal fight in Michigan which effectively put an end to any realistic chance of contesting the election results. Many in his own Republican Party have deserted the President, pleading with him to uphold the integrity of the democratic process and step aside allowing for a smooth transition. Even if he continues the legal fights which claim mass election fraud it is almost certain that this transition will not be reversed. The procedural move means that Joe Biden can begin building his cabinet, yesterday announcing the first six members. The President-Elect will now receive the same daily intelligence briefing as President Trump and it will allow Joe Biden's officials to meet staff at government departments to discuss their plans.

Market update

Stock markets around the world breathed a sigh of relief following the announcements of the results of three successful vaccine trials. The last week has been very volatile as investors remain nervous about the strength of the economic recovery, aware that things may get worse before they get better.

As I reported in last week's update Tesla will be admitted to the S&P 500 on 21 December 2020. As expected the news drove the share price much higher, rising nearly 20% in one week valuing the electric car maker at \$494bn. At this valuation it would be the 7th most valuable company in the Index by market capitalisation. Using more traditional valuation metrics, this would give a price-to-earnings ratio (PE) of 1033, compared to the overall US market PE of around 20, thus indicating a huge level of optimism in the current share price. Other technology stocks like Microsoft and Apple have a PE ratio by comparison of 34 and 35 respectively. It remains to be seen how fund managers respond to Tesla's entry into the Index with passive fund managers in particular having to take steps to replicate Tesla's inclusion.

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Note: Data as at 24 November 2020.



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