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Santander Asset Management

State of Play

3 December 2020

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

Breaking vaccine news

The BBC reported yesterday (2 December) that the UK has become the first country in the world to approve the Pfizer and BioNTech COVID-19 vaccine for widespread use. 'Britain's medicines regulator, the Medicines & Healthcare products Regulatory Agency (MHRA), says the jab, which offers up to 95% protection against COVID-19 illness, is safe to be rolled out next week' says the BBC. Immunisations could start within days for those who need it the most, such as NHS workers and elderly people in care homes. The UK has already ordered 40 million doses - enough to vaccinate 20 million people. Around 10 million doses should be available soon, with the first 800,000 arriving in the UK in the coming days. This vaccine is the fastest ever to go from concept to reality, with it only taking 10 months to follow the same developmental steps that normally span a decade. Prime Minister Boris Johnson tweeted 'It's the protection of vaccines that will ultimately allow us to reclaim our lives and get the economy moving again'. As the news unfolds over the coming days, I will discuss the implications in next week's update.

As England emerges from lockdown, the consequences of restrictions and closures during the pandemic prove to be the final straw for some household names, just as a vaccine obtains the green light.

Is it the end for change resistant retail brands?

Retail brands that once dominated the high street have finally succumbed to changes in consumer behaviour which have been accelerated by the crisis.

After rumours of financial difficulty, Acardia, the huge retail empire built by Sir Phillip Green, went into administration, putting 13,000 jobs at risk. Although the stores will remain open while administrators assess their options, the future for the group (which includes household names such as Topshop, Burton, Dorothy Perkins, Miss Selfridge and Evans) and its employees appears very bleak. Several groups are thought to have been approached informally to see if they may be interested in parts of Sir Philip's empire, including Next the FTSE 100 fashion retailer. ASOS, the online fashion retailer, is likely to consider buying some of Arcadia's brands but would be less interested in their physical stores given their business model.

The news is a hammer blow to the already beleaguered retail sector but has even wider implications as the announcement was soon followed by the news of JD Sports withdrawing from negotiations to take over Debenhams. Arcadia is Debenhams's biggest concession, accounting for about 5% of sales, and the uncertainty about who would own Arcadia's fashion brands in the future is likely to have tipped the balance in their withdrawal decision. Major shareholders of JD Sports had many reservations about the 'rescue' of Debenhams and their share price immediately rose on hearing the news that the deal was off. This decision will likely force the hands of Debenhams administrators into liquidating the company, putting at risk a further 12,000 jobs.

Paddy Lillis, General Secretary of USDAW, the Union of Shop, Distributive and Allied Workers, said: 'Over 200,000 retail job losses and 20,000 store closures this year are absolutely devastating and lay bare the scale of the challenge the industry faces. Each one of those job losses is a personal tragedy for the individual worker and store closures are scarring our high streets and communities. Retail is crucial to our town and city centres, it employs around three million people across the UK. The government must take this seriously; we need a recovery plan to get the industry back on its feet.'

Both Debenhams and Acardia can be added to an already long list of old established retail brands that have fallen since the pandemic began in March. Whilst the pandemic in isolation cannot be cited as the only reason these businesses have gone bust, the change in consumer behaviour which has been evolving for over a decade went into fast-forward. Some experts believe that the change seen over the last six months may have taken at least five years to replicate had the conditions brought about by pandemic and lockdowns not ignited the need for consumers to purchase goods online, either out of pleasure or necessity, as they were unable to visit physical stores or high streets. Given the UK is so heavily reliant on consumers for a large chunk of its economic activity, this swift rotation in consumer habits was bound to have an enormous ripple effect.

Market update

November market rebound

Often the expression in football is that it can be a game of two halves. In stock market terms it has been a story of two months. October and November could not have been more different in terms of market sentiment and investment outcomes.

October was dominated by sharp increases in COVID-19 infections in a global second wave and the uncertainty surrounding the US Election with the prospect of either a contested election or potential blue wave denting the stock market outlook. October saw markets fall significantly with FTSE 100 and NASDAQ indices down 5%, the S&P 500 Index down nearly 4% and general sentiment suppressing market returns.

Whilst the first week of November delivered an uncertain soap opera, with the US Election initially undecided officially and President Trump refusing to concede, the results in Senate seats maintaining a future divided government helped lift sentiment. This was then swiftly followed by an injection of positive vaccine news providing a huge 'shot-in-the-arm' for investors sending prices sharply upward. Due to the sector makeup of the FTSE 100 it was the star performer - rising over 12% and narrowly missing the highest ever one month rise due to a flat end to the month. The rise in Oil price and the prospect of normality returning with vaccine news drove hard hit sectors; travel, tourism and energy whose shares were up by, in some cases, more than 30%. Whilst the FTSE 100 was the best performer in November, other markets also experienced a bumper month with Japan up over 11%, US markets up over 7% and Far East/Emerging Markets up around 6%. The outlook remains uncertain despite a positive November, and direction and momentum are reliant on vaccine approvals and virus news, whether that be good or bad.

S&P 500 asset concentration

Over the last couple of weeks I have commented on Tesla being admitted to the S&P 500 in late December. The share price has rocketed not just since this announcement but over the last 12 months, in spite of the economic impacts from the pandemic. One significant consequence of Tesla's inclusion, apart from the challenge for passive fund managers looking to replicate the index, will be the increase in concentration of the largest stocks within the index. Usually, over the last 20 years or so, the S&P 500's top 10 holdings make up about 20% of the index's total assets but that figure has expanded sharply over the past 18 months, reaching 28% in June and counting Tesla's addition based on today's valuations, will now account for 34% of the index. At one third of the S&P 500, the top 10 positions are likely to drive the index's results in the short-term at least. That concentration has benefited S&P 500 investors in 2020 but whether it will continue to do so is of course another matter entirely. The top 10 companies arguably are huge cash generators (oddly apart from Tesla) which is reflected in their share price, but it also makes them sensitive to the expectations placed on them by shareholders. No doubt investors will watch, with interest, any volatility created by changes in the momentum or progress these constituents may have in the months ahead triggered by news flows that may take them by surprise.

Gold price impacted by good news flow

One of the reasons why asset managers seek a mixture of asset classes which are considered negatively correlated is to smooth the investor journey. When one asset class falls, ideally some of the others held within a mixed asset portfolio should rise, allowing for the right mixture to reflect the investor's attitude to investment risk and their investment time horizon. Gold has traditionally been an asset class which can be used as an insulator to market volatility especially when investors become bearish and markets 'sell-off'. As markets enjoyed a stellar month in November it may come as no surprise that Gold fell in value over the same period. Prices fell over 8% in November as some investors no doubt took profits and moved these back into risk assets. Despite November, the asset class remains a valuable tool for asset managers, especially with the remaining uncertainty with monetary policy and low interest rates likely to fuel an inflationary environment depending on the economic recovery, and subsequent demand as the world starts to emerge from the pandemic.

Oil price

On the back of three consecutive weeks of positive vaccine news and the tantalising prospect of the world economy returning to somewhere near normal in the next 12-18 months, the price of Brent Crude, the world benchmark, has risen substantially during November with a 30% increase pushing up the share prices of the energy sector as a consequence. This sector has suffered a torrid time during the pandemic with the impact of global lockdowns sending the price into a tailspin with prices falling nearly 80% in a very short period of time back in the spring. Many energy companies posted large losses back in the summer but are no doubt relieved to see progress on the attempt to immunise the world against COVID-19 with many taking the opportunity to reshape their businesses and prepare for the future. The likely price direction will largely depend on the speed and size of the economic rebound and the supply decisions made by the biggest oil producers, including the Organization of Petroleum Exporting Countries (OPEC). Energy companies and other sectors like travel and tourism, where profit margins can be decimated by the cost of oil, will remain sensitive to the change in price and progress on implementing a successful vaccine.

Find out more

Listen 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 2 December 2020.

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Important Information