Santander Asset Management

State of Play

8 January 2021

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

Welcome back to State of Play. I would like to take this opportunity to wish you all a healthy and prosperous 2021. Although we embark on a New Year where things may get tougher before normality can be resumed, I think we can agree we are starting to see light at the end of the tunnel.

President Trump's last stand leads to tragic consequences

President Trump's term in office has been dominated by a style of leadership never seen before in US history. Wednesday (6 January) sadly was no different. Earlier in the day President Trump held a rally just a few hundred yards from the White House saying, '... you'll never take back our country with weakness. You have to show strength and you have to be strong.' When the rally ended his supporters walked to the Capitol building, breached the limited police protection and triggered utter chaos as they entered the building and the Senate Chamber shouting at politicians who were in the process of confirming Joe Biden as President-elect. President-elect Joe Biden and other senior politicians on both sides urged President Trump to condemn the violence and ask his supporters to retreat peacefully.

After the Capitol building was secured, members of Congress resumed their joint session and confirmed President-elect Joe Biden's certification. As he reopened the session Mr Pence said: 'To those who wreaked havoc today — you did not win. Violence never wins. Freedom wins. This is still the people's house... Let's get back to work'. Shortly after the confirmation President Trump said in a statement: 'Even though I totally disagree with the outcome of the election, and the facts bear me out, nevertheless there will be an orderly transition on January 20'.

Democrats take control of Congress

Ironically, as the violence in Washington was unfolding the Senate elections in Georgia both went to the Democrats giving Joe Biden's Administration control of Congress and paving the way for them to pursue their legislative priorities. Raphael Warnock, the Pastor of Martin Luther King's Ebenezer Baptist Church, will become the first black senator to represent Georgia having beaten the Republican incumbent Kelly Loeffler. The other crucial Senate seat was between Jon Ossoff, 33, a Democratic former documentary maker, and David Perdue, 71, the Republican incumbent. Whilst the count was very close, Mr Ossoff will become the youngest Democratic senator since President-elect Joe Biden entered the chamber aged 30 in 1973.

In the first sign of President-elect Joe Biden's expanded clout, he chose Merrick Garland, an influential Appeal Court Judge, to be his Attorney-general. He was aware that a Democratic-controlled Senate would agree to replace Mr Garland on the bench with a liberal jurist. The consequences of the Democrats winning both seats from the Republicans splits the Senate 50-50, meaning when Kamala Harris is sworn in as Vice-president on 20 January she would have the casting vote, putting the Democrats in control. This is significant for President-elect Joe Biden's agenda allowing his government to implement a more radical programme which is likely to include tax rises for businesses and individuals, and barriers removed to immediate additional financial stimulus.

National Lockdown 3.0

One of the consequences of living in the Caribbean is that every summer you run the risk that the tranquil beauty is interrupted by mother nature in the form of a hurricane of two. When Prime Minister Boris Johnson addressed the nation at 8.00pm on Monday evening (4 January) this is the analogy that was in my mind as he instructed everyone (in England) to stay at home. If you are unlucky enough to be in the path of a hurricane you would normally experience three stages; a terrible storm as the first wave hits, the eerie quiet as the storm eye passes through and then the awful prospect of the back end of the hurricane (sometimes more devastating than the first phase). This to me feels much like the pandemic at present.

The first lockdown was full of uncertainty but backed by high community spirit as the consequences of the pandemic were new to all of us amidst the warm sunshine of spring. This was followed by a more normal summer encouraged by the 'Eat Out to Help Out' scheme and easing of many restrictions. However, this time around and in the middle of winter, the stark reality of being locked up in our homes for nearly two months seems a much more daunting prospect.

The reasons given for this second, potentially more deadly wave, is a new, more infectious variant of the virus which is 50-70% more likely to be transmitted to others. According to the UK Government website as at 5 January, those who have tested positive in the last seven days is over 390,000 which is a 43% increase from the previous week. Hospital admissions are up 18% and death rates are up 45%. Critical in the decision to lockdown is the expected lag between the current positive test results and future hospital admissions expected - increasing pressure on the NHS which in some areas is already close to capacity.

The timescale for the lockdown has been set initially for a review in the February half-term and will be subject to how successful the vaccine roll-out has been, the rates of infections at the time and hospital capacity before any easing of the measures is agreed upon. Many suspect that this could easily drag on well into March unless there is a dramatic drop in positive COVID-19 cases and those in hospital receiving treatment.

The Chancellor of the Exchequer Rishi Sunak has announced businesses in retail, hospitality and leisure will receive new grants to help them keep afloat until the spring. The grants will be worth up to £9,000 per property and although business groups welcomed the new financial support, they warned the money still wouldn't be enough to save many firms from collapsing. The help is in addition to business rate relief and the furlough scheme, which has been extended until the end of April. The UK Budget 2021 is scheduled for 3 March where the Chancellor is expected to extend existing support packages and probably announce new targeted measures to help prevent further job losses and business closures.

Vaccination update

Since my last update on 18 December yet another vaccine, developed by Oxford University in partnership with AstraZeneca, has been signed off by regulators. The Medicines and Healthcare products Regulatory Agency (MHRA) has authorised two full doses of the Oxford-AstraZeneca vaccine, with the second dose to be given four to 12 weeks after the first. There are a couple of advantages to the Oxford vaccine when compared to the Pfizer-BioNtech; the Oxford vaccine need only be stored in a normal fridge where it lasts for up to 5 days and it is significantly cheaper with AstraZeneca committing to manufacture the vaccine at cost price without making any profit. There is also more confidence about supply as it is manufactured in the UK whereas the Pfizer-BioNTech vaccine has to be shipped in from Belgium.

The UK has ordered 100 million doses of the new vaccine which is enough to vaccinate 50 million people. With two vaccines now approved, it is hoped that about two million patients a week could soon be vaccinated leading to the inoculation of 12-13 million of the eldest and most vulnerable in society by the middle of February. The UK and the US are many weeks ahead of Europe on vaccination implementation as they both fast tracked the approval process as a matter of urgency. When the Pfizer-BioNTech vaccine rollout began, the aim was to give the second dose after three weeks but the immunisation programme has since been tweaked on the advice from the Joint Committee on Vaccination and Immunisation. The target now is to give as many vulnerable people some protection from COVID-19, by providing the first jab and then delaying the second dose until near the end of the 12 week period, allowing for more people, more quickly to gain protection.

The term 'Brexit' is filed in the history books

The UK ceased to follow European Union (EU) rules at 11.00pm on 31 December 2020, having officially left the EU on 31 January 2020. After months of protracted negotiations a last minute deal was finally signed off by both the UK and European Parliaments just in time for the agreed departure date at the end of the extended transition period. This now means that replacement arrangements for travel, trade, immigration and security co-operation have come into force.

Under the final deal the UK and the EU have agreed no limits on the amount of things that can be traded and there'll be no taxes on each other's goods when they cross borders. However, traders will need to complete customs declarations as if they were dealing with countries elsewhere in the world increasing the paperwork and bureaucracy. The UK Government has chosen to delay by six months the imposition of full controls, whilst the EU started to carry out checks from 1 January.

Behind the scenes over the last few months British negotiators have been working as fast as possible to reach agreement on trade with as many countries as possible before the UK left the EU. Whitehall officials shored up 32 accords in time for the end of the Brexit transition period, largely preserving terms of trade with 62 countries ensuring that the existing arrangements under the EU agreement remain in place. However, agreements signed with Canada and Mexico will not come into force in time, triggering default tariffs.

The UK will now be free to make new trade agreements with the United States, Australia and New Zealand and others, but civil servants have spent the past three years trying to preserve its access to those with which the country has traded as a member of the EU. The issues that remain unresolved are financial services, data sharing and the thorny issue of fishing rights which have a 'sell by date' of five years, in which time a longer term agreement has still to be reached.

Importantly the new deal allows the UK to disagree with changes made by the EU to its laws and standards on goods, regulation and other important factors. It could be argued this was the whole point of leaving in the first place, however it means that any divergence or disagreements when these changes are eventually made could lead to tariffs on either side if they feel they create a disadvantage which could lead to ongoing disputes on key subjects in the future.

Market and economic news

According to a poll of more than 90 leading economists in the Financial Times' annual survey, the UK economy will take at least 18 months to return to its pre-pandemic size, and will lag behind other countries. Adam Posen, President of the Peterson Institute for International Economics and a former member of the Bank of England's Monetary Policy Committee, said 'the UK will be among the last, if not the last, of the high-income economies to regain its pre-pandemic size' while many respondents said this will be due to a lasting rise in unemployment, weak business investment and the after-effects of Brexit.

Despite the economic uncertainty created by rising infection rates and further national lockdowns in the UK and elsewhere in the world, investment markets have been broadly positive since they reopened at the start of the year. The accelerating vaccination programmes allows markets to see through to economies reopening at the end of winter and the start of spring - providing enough incentive to grind values higher. In addition, the clean sweep achieved by the Democrats means markets expect further financial stimulus to be agreed without a political challenge. Investment markets remain sensitive to any problems with vaccinations in manufacturing or distributing fast enough leaving the prospect of further volatility. US Treasury yields drove above 1% for the first time since early March as extra taxation and more borrowing to pay for legislative priorities are being priced in. When markets are this sensitive to multiple drivers holding a diversified portfolio over the longer term helps navigate markets in the short term until we return to anywhere near more 'normal' market conditions.

Find out more

Listen to our latest **Market Views** from our Head of Multi Asset Solutions, Stefano Amato, as he shares his thoughts on the main themes dominating markets in January **here**.

Note: Data as at 6 January 2021.

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