All. Together. Now.

Santander Asset Management

State of Play

25 March 2021

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

As the UK remembers the anniversary of the beginning of the first lockdown (and the first edition of State of Play), the vaccine row continues as rising infection rates prompt further lockdowns in Europe.

A year ago the UK Prime Minister addressed the nation to announce the sombre news of a national lockdown and warnings about the troubled road ahead. Whilst we were all expecting the announcement I am not sure any of us could have predicted the impact COVID-19 would have on our day-to-day lives, be it our normal social freedoms, our working environment or our nearest and dearest. The ups and downs of the last 12 months have had deep economic consequences, accelerated changes in consumer behaviour and provoked profound reactions from investment markets still trying to work out which sectors, companies and regions will be winners and losers over the longer-term as we all recover from consequences of the pandemic.

Oxford-AstraZeneca vaccine gets the all clear

The UK has now given a first vaccine dose to more than half of the adult population as it passes 28 million first doses administered, with second doses now reaching over 2.3 million. Infection rates have levelled off at around 5,000 new cases per day, but both hospital admissions and deaths continue to fall albeit slower than a few weeks ago. Concerns about vaccine supply have prompted the UK Government to warn about much lower vaccination rates during April until supply issues are rectified. Prime Minister Boris Johnson has warned that a third wave of COVID-19 infections sweeping Europe will spread to Britain. 'People in this country should be under no illusions that previous experience has taught us that when a wave hits our friends, it washes up on our shores as well. I expect that we will feel those effects in due course' he said. The Prime Minister's warning came amid concern over foreign travel, as the third wave in Europe makes resuming holidays in May look increasingly unlikely.

After a number of European countries suspended the Oxford-AstraZeneca vaccine last week despite reassurances from regulators, many breathed a sigh of relief when the long awaited US trial of the vaccine confirmed it is safe to use. Just over 32,000 volunteers participated in America, Chile and Peru with the vaccine being 79% effective at stopping symptomatic disease and 100% effective at preventing individuals from falling seriously ill, with no safety issues regarding blood clots. Many countries had already resumed using the vaccine following the regulator's urgent review last Thursday, but the outcome of this trial will be a great relief to those in power, especially against a backdrop of rising infections across the continent triggering places like Paris to enter into a fresh four week lockdown to protect its health service.

European Commission President Ursula von der Leyen has organised a virtual summit today (25 March) of European Union (EU) leaders to decide whether to go ahead with restrictions on exports. President von der Leyen said that 41 million vaccine doses have been exported from the bloc to 33 countries in six weeks, with more than 10 million jabs going to the UK. She has said that, in contrast, the EU is still waiting for vaccine exports from the UK and she warned last week that if supplies in Europe do not improve, the bloc 'will reflect whether exports to countries who have higher vaccination rates than us are still proportionate'.

Foreign travel ban extended until end of June

Whilst the pandemic has eased its grip on the UK with just 17 deaths reported on 22 March, the lowest since September last year, the UK Government has become increasingly concerned about the rising infection rates across Europe. This has prompted draft law changes, published this week to assist Prime Minister Boris Johnson's road map out of lockdown, that mean leaving the UK without a 'reasonable excuse' such as work or education will be illegal until 30 June 2021. People who travel from England to another part of the UK with the aim of leaving the country, or who go to an airport trying to do so, face fines of £5,000 as ministers tighten border restrictions. Officials were explaining that the travel ban has been extended for legislative convenience, but foreign holidays could be allowed before this date depending on the outcome of the UK Government's review due early next month. Staycations in Britain are banned until at least 12 April, when self-catering accommodation is due to reopen but hotels and other indoor hospitality venues are scheduled not to open until 17 May. The Foreign Office is considering a traffic-light system as it is unlikely that many holiday hotspots would be declared 'green' until late summer because of the slow pace of vaccinations in Europe.

President Biden hits his vaccination target early as stimulus cheques land on American doorsteps

In the US, one of the many priorities listed by President Biden on Inauguration Day was to target 100 million vaccine doses within his first 100 days. Just 58 days into his administration President Biden was unsurprisingly upbeat about the progress made, reaching the target set with six weeks to spare. In addition, following Congress approval of the Financial Rescue deal, 100 million Americans received their cheques for $1,400. It remains to be seen whether these cheques will provide the economic stimulus to kick-start the economy as it slowly emerges from various restrictions aligned directly with the vaccination progress and falling infection rates. Not all states are in the same place, so as with restrictions, the easing process will differ from region to region based on local decisions informed by the data but influenced no doubt by the 'local' politics and economic sector makeup. The US public saved a record amount during 2020 and continue to 'stash the cash' at an unprecedented rate. The dilemma for investors is how much of this will be spent once the restrictions are lifted leading to uncertainty in recent weeks.

UK unemployment data surprises

Official data released by the Office for National Statistics (ONS) surprised markets as the unemployment rate fell from the previous month, 5.1% to 5%,when most experts expected a small rise. What the data does reveal is how dependent certain sectors and businesses are on the furlough scheme. Currently about a fifth of all employees are supported by the scheme which is due to finish at the end of September. Employment actually rose by 220,000 between December and January, even though the economy shrank by 2.9% that month. More recent data shows the number of payroll employees rising by 68,000 month-to-month in February to 28.3 million. Vacancies rose by 8% in the three months, albeit still 26.8% lower than a year ago.

The ONS also noted that unemployment could fall further in the coming months because the furlough scheme is protecting workers in sectors that are in financial difficulty, versus the businesses who have weathered the storm better in stronger sectors and are recruiting to grow their business. Earnings data remained high but this data is skewed by the fact that the majority of job losses since the pandemic began are from lower paid jobs. The Bank of England still expects unemployment to climb to 6.5% after the support is withdrawn in September.

A year on from the first lockdown what have been the asset class winners and losers?

When the first national lockdown was announced a year ago investment markets had already priced in the consequences of the pandemic. Share prices plummeted and Bond yields fell to record levels as central banks and governments slashed interest rates and announced financial stimulus on an unprecedented scale. So over the last year which investments have been the winners and losers, and more importantly what does the future hold?

Government and Corporate Bonds have encountered a rollercoaster journey - initially in February and March last year they offered fantastic diversification in the first few weeks of the stock market sell-off but then portfolio rebalancing and profit taking saw Bond yields surge. The yields fell back again during 2020 with UK Government Bonds delivering a total return of 7.5% during 2020 but have since suffered at the hands of inflation fears as yields have yet again risen in 2021 leaving the return for the last 12 months at -4%. Fears remain that when economies reopen and unleash pent up demand that prices might rise significantly causing yields to rise further.

Shares over the last year have been driven by lockdown impacts and sector makeup of the various indices around the world. The US stock market has fared much better than most, dominated as it is by the technology sector which makes up a third of its value. This is reflected with the NASDAQ-100 being at the top of the returns over the last year at 60%, Japan at 50% and Emerging Markets at 44%. Much of this return has been from companies and sectors that have benefited most from the restrictions placed on consumers forcing, in some cases, a change in behaviours. The UK stock market has experienced a more difficult time as the sectors that dominate it have largely been affected by restrictions in social activity and travel. The FTSE 100 fell by 34%, the most compared to any market during the initial sell-off, but has bounced back to deliver a positive return of 34%, although much of this has come about since the vaccines were announced in early November and the prospect of reopening has driven a rotation in markets from growth stocks to more value, services and cyclical companies which dominate the UK market - sending Shares up 22% since 1 November.

The future outlook remains uncertain with further lockdowns in Europe and investors unsure about how economies will bounce back and how much pent up demand will drive inflation. As this uncertainty hangs over markets, in the short-term markets will look to clearer signs in order to decide where value lies as investors watch with interest looking to make the right choices with their portfolios.

Find out more

Listen **here** to our latest **Market Views** by UK Head of Multi-Asset Solutions Stefano Amato, as he discusses how inflation fears have impacted markets and gives the latest on portfolio strategy.

Note: Data as at 23 March 2021.

Important Information

This material is for information only and does not constitute an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services.

Opinions expressed within this document, if any, are current opinions as of the date stated and do not constitute investment or any other advice; the views are subject to change and do not necessarily reflect the views of Santander Asset Management as a whole or any part thereof.

Santander Asset Management UK Limited (Company Registration No. SC106669) is registered in Scotland at 287 St Vincent Street, Glasgow G2 5NB, United Kingdom. Authorised and regulated by the Financial Conduct Authority (FCA). FCA registered number 122491. You can check this on the Financial Services Register by visiting the FCA's website www.fca.org.uk/register.