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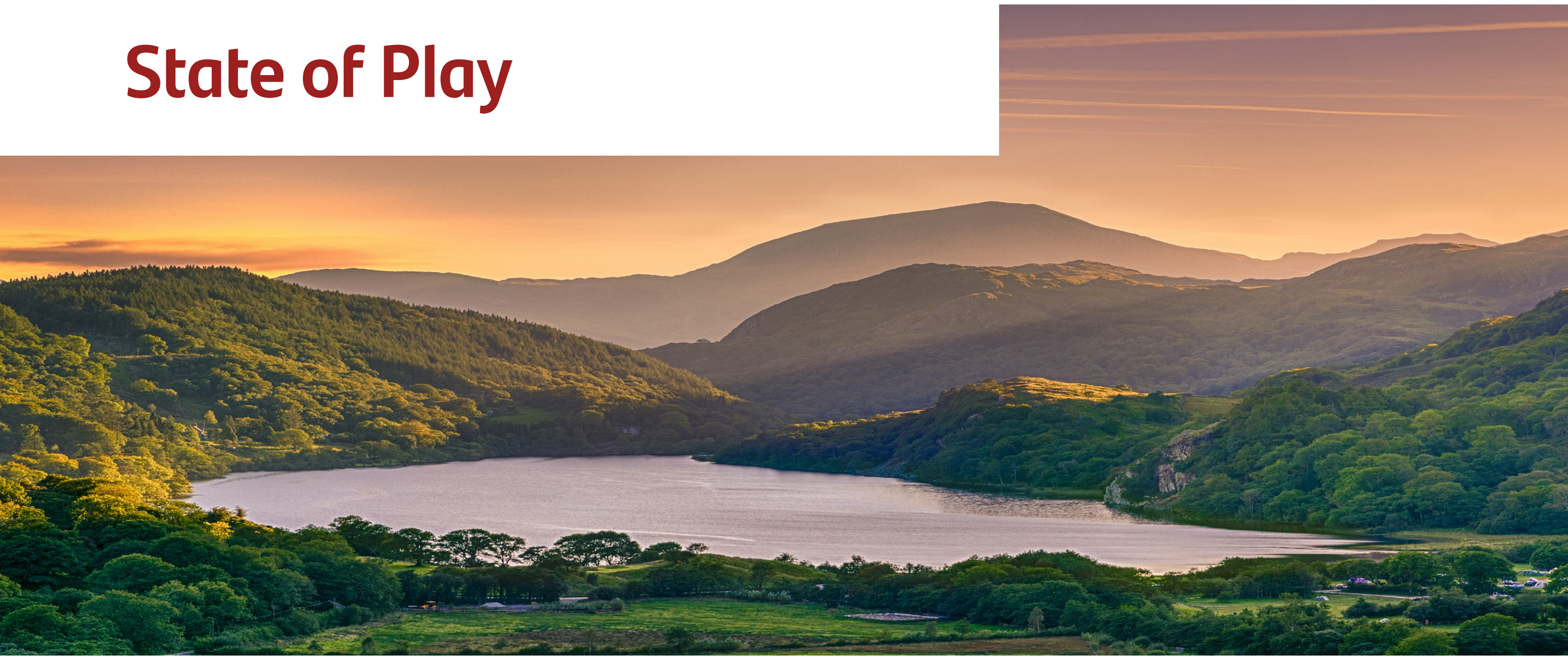
Santander Asset Management

State of Play



18 February 2021

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

Initial vaccine success sparks political pressure to ease restrictions

When the first vaccine was approved in the UK back in December of last year, the UK Government set themselves an ambitious target to inoculate the oldest and most vulnerable in society by the middle of February. Some UK media commentators questioned whether this was possible given the enormous task of organising a network of vaccination centres and identifying the appropriate individuals to invite for their first jab. There has been much debate over the last 12 months about various decisions and in particular their timing, but virtually all will concede that, having reached their target a few days ahead of a schedule, this element of the response to the COVID-19 pandemic has been well executed thus far. Based on the latest UK Government data (as at16 February) 15,576,107 people have received their first dose of the vaccine which represents nearly 25% of the population and is the third highest in the world behind Israel and United Arab Emirates but ahead of the US and Europe.

The UK Government has made changes to how they categorise those people who they recommend should shield until they are vaccinated - expanding the current 2.3 million people who are shielding by 1.7 million. Importantly this newly identified cohort will be added to the priority list and offered the opportunity to be vaccinated in the latest group being offered the jab. A new model has been developed that takes into account additional factors like ethnicity, deprivation and weight rather than just health. The new model was developed following work by Oxford University which looked at the characteristics of people who died in the first wave. Medical records have been searched to identify high risk patients sending letters informing of them of their new status, which means they are entitled to statutory sick pay, prioritisation for online shopping slots and help collecting medicines.

The political debate has now moved to the plans on opening up the economy and easing restrictions. The UK Government has expressed caution and are keen to ensure that when restrictions are gradually lifted they are sustainable and long lasting. At present the target is to allow some children to return to school in England from 8 March, with Scotland announcing on Tuesday (16 February) that a phased return of some children will start from next week. As with previous easing decisions it will be gradual, data dependent and directly linked to the continued progress of the vaccine roll-out. Until then the UK economy remains on a financial ventilator in readiness to begin the recovery when restrictions start to ease.

Impeachment acquittal

In line with expectations, former President Donald Trump was acquitted in the Senate following impeachment proceedings being brought by Democrats seeking to hold him accountable for the raid on the Capitol Building on 6 January 2021. In the end only seven Republican Senators voted in favour of guilty, falling 10 votes short of the two thirds majority required to reach such a verdict which would have barred him from holding public office in the future. It took just five days of debate to arrive at the acquittal and now leaves it open for him to run again in 2024 depending on whether he can garner sufficient support from his Republican base. Donald Trump will be 78 years of age at the next election which is the same age Joe Biden is now making him the oldest President ever to be elected to office in US history.

UK economy sees largest fall in 2020 since records began

The UK economy narrowly avoided entering into a double dip recession after recording a small rise in output of 1% for the last quarter of 2020. Despite this small improvement under the cloud of the second lockdown in November, when looking at the year as a whole the UK economy recorded its worst fall in output since records began. The fall of 9.9% during 2020 is more than twice the fall suffered from the financial crash in 2008/2009 and puts into context the sheer scale of the damage inflicted by the COVID-19 pandemic. Attention will now turn to the UK Budget planned for 3 March in which the Chancellor of the Exchequer, Rishi Sunak, will outline his financial plans for the coming year with expectations that further targeted financial support will be announced trying to bridge the gap between the holding pattern we find ourselves in during lockdown and the reopening of the economy later in the year. His priorities list is a long one with many still under the blanket of the furlough scheme supporting jobs and people's income, and the reality of large job losses as the support comes to an end looms large.

The Bank of England has described the economy this week as a 'coiled spring' ready to release large amounts of 'pent-up financial energy'. The public saved record amounts in 2020 due to restrictions and lockdowns - no doubt waiting for an opportunity to spend at least some of this once vaccines provide a much needed route to normality. The Chancellor said, '...what's clear is right now, many families and businesses are experiencing hardship. That's why we've put in place a comprehensive plan for jobs to support people through this crisis, and we will set out the next stage of our economic response at our Budget in early March'. One thing is for sure, the economic data is likely to get worse before it gets better given the length of the current lockdown. Whilst some sectors like construction and manufacturing have been able to operate, albeit in a COVID-19 secure way, the shutting of shops, hospitality and other service sectors for a third time in just 12 months will have hit hard in the first quarter of this year when the results are measured in early April.

Jaguar Land Rover pursue an all-electric future

In a reflection of the changing attitudes and momentum on climate change, Jaguar Land Rover announced that it plans to go all electric within four years. The timelines include phasing out diesel engines by 2026 and to cease making all internal combustion engines entirely by 2036. This is a gamble by the group owned by Tata Motors of India, forced in part by the changing regulations on emissions and the large share of new cars sold by the group which are diesel powered (sales of which have plummeted in recent years as consumers slowly embrace electric and hybrid cars in much larger numbers). Developing electric cars is an expensive business as the design and build costs far outweigh the traditional combustion vehicles leaving little room for profit margins once they are sold to the end consumer. The first all-electric Land Rover vehicle is due to be launched in 2024 and the company is exploring using hydrogen fuel cells for its heavier Range Rover 4x4 models. Hydrogen fuel cell technology employs fuel cells which deliver electric power, without producing tailpipe emissions with water the only by-product.

Market update

As the vaccination roll-out hits the initial target set by the UK Government a few days early, markets have reacted with renewed confidence since last week's update, grinding higher in anticipation of economies reopening later in the Spring. Expectations are that pent up demand will drive a strong recovery in consumption following a year of lockdowns and restrictions. One aspect of the reopening being watched closely by markets will be the effect the surge in demand has on inflation. Whilst central banks will be keen to hold interest rates lower for longer, to allow the recovery to build up a head of steam, some commentators are predicting sharp short-term spikes lifting inflation perhaps above 5 or 6% in the last quarter of this year. All central banks have followed the US Federal Reserve in allowing for an overshoot on inflation for a sustained period by targeting average inflation rather than a specific set target, but markets may take matters into their own hands by pricing in the eventual response of central banks earlier with much higher Bond yields regardless of the patience potentially shown by policy makers. When economies do finally reopen fully, cyclical and value sectors who have been hurt most by the pandemic are likely to rebound strongly provided they have managed to survive the challenging conditions brought about by the pandemic in the last 12 months.

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 in February **here**.

Note: Data as at 16 February 2021.

Important Information