

State of Play



22 January 2021

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

Inauguration Day

If we delved into the history of presidential inaugurations, going all the way back to the first (George Washington in 1789), I am sure none have been as unique as Joe Biden's on Wednesday (20 January). Against the backdrop of a global pandemic, and following a Trump Presidential term, the challenges facing the new administration are clear and present. In place of an audience of hundreds of thousands of spectators there instead lay almost 200,000 US flags. Joe Biden was sworn in as President alongside Kamala Harris as Vice President just before 5pm (GMT) and in his speech he said 'I give you my word - I will always level with you. I will defend the constitution. I will defend our democracy. I'll defend America... together we shall write an American story of hope not fear, of unity not division, of light and not darkness'. In a blow to President Trump's leaving party many of his senior team including the Vice President, Mike Pence, decided to attend the inauguration instead.

What is the inauguration?

The inauguration is the formal ceremony that marks the start of a new presidency, and it takes place in Washington DC. The President-elect recites the presidential oath of office, 'I do solemnly swear that I will faithfully execute the Office of President of the United States, and will to the best of my ability, preserve, protect and defend the Constitution of the United States'. As soon as he was sworn in Joe Biden then became the 46th US President and Kamala Harris became Vice-President having taken the oath of office, which usually happens, as it did, just before the President. It has become customary for the outgoing President to attend and watch the next in line take the oath. However, for the first time since President Nixon resigned following the Watergate scandal and impeachment, President Trump chose not to end his tenure with the normal passing of the baton in the peaceful transference of power.

Typically new Presidents are judged heavily on their first 100 days in office. In the midst of a global pandemic, an economic crisis and an inbox that would test the most resilient leaders in the world, President Joe Biden will have to act quickly to address the challenges that lay at the White House front door. The rhetoric leading up to the inauguration has been about reversing much of President Trump's legacy and on the day itself the new President signed 15 executive orders, notably including boosting the federal response to the pandemic and beginning the process of re-joining the 2015 Paris Climate Agreement.

Investment markets will no doubt watch with interest, looking to an early decision about financial stimulus to help the US economy to ride out the pandemic until vaccinations release the economy back to normality. Some of the other key topics include the approach to climate change and foreign policy, with particular interest on his approach to China, Russia and the Middle East. These will likely provide a clearer indication to investors of the direction of travel and how to respond. Further down the line attention will turn to taxation as the economy recovers, this probably amongst all of the key issues, sparking the greatest reaction from markets.

Vaccination update

Vaccinating an entire country was always going to be a herculean task, let alone when an overwhelmed NHS is giving care to over 37,000 people in hospital with COVID-19, 13,000 more than at the height of the first national lockdown last spring. After a promising start with over four million people having received their first jab, concerns have been raised about the supply of vaccines to hospitals, vaccination centres and pharmacies. In particular the Pfizer-BioNTech vaccine supply has slowed as they make improvements to the efficiency of their factory in Belgium explaining that the supply will slow for the next three weeks and then pick up again in February.

Whilst the current national lockdown is starting to slow the spread of the virus with a 22% reduction in the last seven days, the speed of the vaccinations, especially to the oldest and most vulnerable is essential for any easing of lockdowns in the next few weeks and opening up schools, businesses and the wider economy.

The other factor concerning the UK Government and health experts is the lack of understanding about the time lag between the vaccination injection and protection against the virus. Firstly this is because after receiving your first injection it takes about three weeks to provide protection and because each of the vaccines available are in two doses, the first dose is said to provide approximately 70% protection until the second jab takes this to over 90%. Experts monitoring activity on social media are worried that too soon after injections some people start to see relatives and drop their guard against the normal protocols designed to keep us safe and slow the spread. Further advertising and educational material are planned to address this growing issue.

Economic news

According to the Office for National Statistics (ONS) productivity in the UK increased at its fastest pace since 2005. Output per hour, the main source measured to calculate productivity increased by 4% in the three months to September 2020 when compared with the same period in 2019. The UK remains around 20% less productive than the US, Germany and France. However, it does show a strong bounce back as the economy recovered from the spring lockdown. The ONS cautioned that the data was heavily influenced by the impact of lockdown and the furlough scheme introduced to protect jobs but nevertheless the data is encouraging. Improvements in productivity are brought about by producing more with the same resource, essentially lifting living standards when wages rise faster than inflation. It remains to be seen the impact of the second and third lockdowns on the recovery. Unlike the first lockdown, manufacturing, construction and many service sectors are now operating under strict COVID-19 guidelines allowing for economic output to continue closer to normal.

China was the first to lockdown and the first to emerge following a reopening of their economy in the second quarter of 2020. The latest economic data released shows the continued recovery leaving China as the only major economy in 2020 not to contract. China's economy grew by 2.3% last year albeit it is the slowest growth since 1980. During the lockdown their economy contracted 6.8%. The pace of recovery following reopening has accelerated throughout the last year - only held back in part by a drop in exports as other large economies went into lockdown as the pandemic spread throughout the world. The fourth quarter was the best of 2020 with a growth rate of 6.5% ahead of the forecast 6.1%.

Market update

China's economic recovery is in part reflected in the investment performance of their stock market. Since the start of the year it has grown just over 6% which is better than most stock markets and has helped drive values higher in the Far East and Emerging Markets which have increased between 6-7% respectively. This follows a strong recovery from market falls early last year to post a positive 33% by the end of the calendar year. President Joe Biden's approach to foreign policy and how he builds an ongoing relationship with China has the potential to unsettle markets if his strategy does not provide the pragmatism and calm that investors are probably expecting to see.

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 20 January 2021.



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