State of Play

28 January 2021

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

Retail power shifts further online

Boohoo, the online fashion retailer founded in 2006, has agreed to buy Debenhams online businesses for £55m from its administrators, FRP Advisory, following its collapse towards the end of last year. Sadly the deal excludes 124 department stores and puts 12,000 jobs at risk, a situation endemic of the shift away from bricks and mortar retail as lockdowns force consumers to buy online. Some retail businesses who identified this trend earlier have made changes to embrace an online business model and have survived the closing of stores better than those who were slow to adapt and evolve.

In a sign that this transaction isn't the first and will probably not be the last, ASOS, another online fashion retailer, has started talks with Arcadia to buy some of its brands (Topshop, Topman and Miss Selfridge) but not the shop window or retail staff, placing thousands more jobs at risk. Certain sectors like travel, tourism, leisure and hospitality have been severely hit by pandemic lockdowns, but the change in human behaviour over the longer-term appears to be irreversible where the retail sector is concerned. Whilst people are likely to return to pre-pandemic pleasures like going abroad for holidays, eating at their favourite restaurant or meeting friends at their local pub, the change in consumer habits that started over a decade ago is unlikely to return to where it was before this crisis began. To a lesser extent those who used to be members of gyms and health clubs may review the value for money this offers now that millions of us have discovered the great outdoors of our parks and open spaces. Some who keep fit at home and online may find the convenience and cost saving too tempting to ignore. The seismic shift in retail goods seems more permanent.

Vaccination update

As the UK passed the grim milestone of 100,000 deaths this week, almost a year to the day since the first cases were identified, the importance of the vaccination programme looms large. Any prospect of emerging from this crisis rests on the continued national lockdown providing valuable time for the oldest and most vulnerable in society to receive their injections, whilst shielding the NHS from additional admissions to record numbers being treated in hospitals. This cohort of people is estimated at approximately 15 million in which the UK Government has set as an initial target date of mid-February for them to receive their first injections.

Initially the time lag between the first and second required doses of the three approved vaccines had been recommended at three weeks by the drugs companies who developed them. In order to protect as many as soon as possible, the decision to delay the second dose had been set currently at about 12 weeks. However, in consultation with experts, the UK Government is looking to shorten this as concerns remain about diluting the effectiveness of the second jab if left until the very last opportunity. As at the close of Monday 25 January, the latest data from the UK Government website confirmed that almost seven million people have received their first injection, offering about 70% protection against the virus and nearly half a million have been given both doses. Whilst the task is gigantic, the UK has made strong progress, vaccinating over 10% of the population in comparison to 2% in the EU. Disagreements have started about vaccine supply with the EU concerned about the slow progress made so far and the reliability of supplies available to their member states. It is trying to intervene with additional checks on all of the drug companies before they can export outside of the EU. The UK placed its order with Pfizer-BioNTech and AstraZeneca several months before the EU was able complete their process and pre-order millions of doses when the vaccine development programme and subsequent trials were completed. The current EU contract with AstraZeneca requires 100 million doses to be delivered by the end of March this year.

Economic news

Unemployment in the UK has reached 5% for the first time in more than four years as 200,000 jobs were lost in the three months to November, according to the Office for National Statistics (ONS), with a total of 1.72 million people now out of work. Whilst the job losses were expected given the crisis and the second national lockdown in November, most experts had predicted much worse thus highlighting the reliance businesses and the wider UK economy has on furlough and other job retention measures.

When you look closer at the data it reveals that the vast majority of these job losses have been at the lower end of the pay and rewards distribution, lifting average pay (excluding bonuses) over the last 12 months by 3.6% as at November 2020. The key to whether many eventually lose their jobs will in the most part depend on whether the support measures in place, which are due to finish at the end of April, buy enough time for employers to restart their businesses and bring back their workforce before they have to contemplate heavy job losses when the UK Government help has ended.

Many economists are predicting that the jobs market will get worse throughout the first half of this year, estimating that the jobless rate could hit as high as 7.5% when support measures end. Chancellor of the Exchequer, Rishi Sunak, has a big list of priorities that require decisions before he delivers his budget on 3 March. Speculation has been circulating across all of the financial media for months about some of the options open to him. Many expect him to extend the stamp duty concession, which is due to finish at the end of March, with some reports claiming that something more radical may be announced. Regardless, the additional borrowing to shore up the economy through this pandemic has reached eye watering levels and is way beyond the support given during the financial crisis of 2008. It may take many generations to repay what is being borrowed at present, with the only comfort being that, over any term, the UK Government is currently able to secure this debt at record low rates.

Market update

Markets have been quiet since last week's update as investors wait to see if the proposed $1.9tn stimulus package announced by President Joe Biden will be watered down, given his narrow margin of power in the Senate. Markets have been pricing in a compromise ahead of the negotiations which are due to start early next week. The continuing economic recovery and the bounce back in China has driven Far East and Emerging Markets higher in the last week, gaining more than 3%. Technology Shares have had a quiet start to 2021 after strong returns last year which were driven by the advantages this sector gained from people being forced to work from home and shop online. Some have expressed concerns about the gains leading to higher valuations with some media outlets talking about potential bubbles. That said, this sector has had another strong week - up over 4 % - as a slew of companies reported in what is set to be the busiest week for earnings since the start of the year. As an example, Microsoft beat market estimates as the software giant continued to benefit from a global shift to working and learning from home. Revenue growth for Azure, the company's flagship cloud computing business, is well ahead of expectations according to consensus data from Visible Alpha.

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 26 January 2021.

Santander Asset Management