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Santander Asset Management

State of Play

4 February 2021

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

New variant discoveries spark vaccine effectiveness concerns

After identifying just over a hundred cases of the South African strain of COVID-19, the UK Government have triggered a 'door-to door' enhanced testing regime in several postcode areas across the country. They are targeting about 80,000 people in an attempt to identify, isolate and stop the spread of this strain in the hope of preventing a setback to the delicate stage of the current lockdown and mass vaccination programme.

In a further worrying development, the 'Kent' strain of the virus appears to have mutated – following the same path as the South African and Brazilian mutations by becoming more infectious and appearing, under initial testing, to be more resilient to vaccines (efficacy of just over 50% as opposed to 90%+ against the original strain).

All viruses mutate, but when COVID-19 mutations are compared to the flu for example, which sees different strains circulating every year, they tend to be more stable. Thus medical experts still believe the vaccines offer a very good degree of protection and with this generation of vaccines it is relatively straightforward to re-engineer them to work better against the mutations that have been identified.

Daily infection rates continue to fall significantly as the lockdown starts to have a bigger impact and although this is an improving picture it has been slower to impact on hospital admissions and importantly death rates than had been predicted. Infection rates over the last seven days up until and including 1 February have fallen 26%, whilst hospital admissions are down by 22% and death rates by 10%. This is to be expected as the lag between infections through to the numbers of people who die having tested positive takes many weeks. The mass vaccination programme continues at pace with nearly 1 million people having received their first jab this weekend alone with the total number at 9.4 million up to and including 1 February.

Vaccine dispute resolved after a swift U-turn by EU

After leaving the European Union (EU) at the end of December I am certain the UK was hoping that their new relationship would get off to a smooth start. Alas, against a backdrop of pressure from its member states and following a slow start in vaccinations, last weekend the EU made a decision to invoke Article 16 of the withdrawal agreement before making a swift U-turn after severe criticism. Article 16 is part of the Northern Ireland protocol that governs the country's trading arrangements with the EU and the rest of the UK after Brexit. The protocol was one of the toughest barriers in agreeing the final Brexit deal in late December and was designed to keep trade flowing smoothly and to avoid checkpoints and any border controls. It's considered to be the option of last resort. The article is intended to be used when the protocol is unexpectedly leading to serious 'economic, societal or environmental difficulties'. It allows the UK or the EU to act unilaterally to avoid these difficulties but doesn't mean the protocol is suspended. The idea is that it's used when the parties haven't been able to agree a joint approach to solving problems.

As I mentioned in last week's update, the EU signed the vaccine deals three months later than the UK and only signed off the AstraZeneca/Oxford University vaccine for use last Friday, four weeks later than the UK. The EU wants to control the export of vaccine supplies going from EU factories to outside the bloc. The EU was worried trade arrangements under the Northern Ireland protocol could be used as a 'back door' to get around restrictions and send more supplies of the vaccine to the UK. Finally after a telephone conversation with Prime Minister Boris Johnson, President of the European Commission, Ursula von der Leyen, tweeted late on Friday that they'd held 'constructive talks'. She went on to elaborate: 'We agreed on the principle that there should not be restrictions on the export of vaccines by companies where they are fulfilling contractual responsibilities'. I am sure this was a reassuring development for the UK Government as they look to keep up the momentum towards their target of vaccinating the most vulnerable with at least their first jab by mid-February, a target well within reach at the current daily run rate.

US financial stimulus package update

President Joe Biden and the Democratic Party have taken their first steps in trying to agree further financial stimulus in response to the global pandemic. The proposed relief package totals $1.9tn which includes cheques being sent to eligible individuals for $1,400 and an increase in the minimum wage to $15 per hour in a raft of measures designed to support and restart the economy. Nine Republican senators spent two hours with the President in the Oval Office on Monday evening (1 February) to propose a drastically scaled back counter-proposal but emerged without a deal. By spending much longer than expected with the group President Biden showed his enthusiasm for bipartisan agreement, but he also stuck by his conviction that the economic damage wrought by the pandemic demands a US Government response on a historic scale. Democrats in Congress believe that they can push President Biden's ambitious package through on a party line vote and without the need for Republican support by a process known as reconciliation, which involves appending the bill to the budget. Nancy Pelosi and Chuck Schumer, the Democrats in control of the House of Representatives and the Senate, filed a joint budget resolution on Monday to start the process, with the aim to hold a vote in the Senate by the end of the week.

Economic roundup

The Financial Conduct Authority (FCA) published the Woolard Review which makes recommendations to bring the 'Buy now, Pay later' sector under regulatory scrutiny. These services were used by five million people in the UK for total sales of £2.7bn in the last year. However, one in 10 people using them already had debt arrears elsewhere the review found. Now the FCA intends to regulate the sector, after the value of these services saw a near fourfold rise last year.

Data released from the Bank of England (BoE) showed that people in the UK paid off more credit card and loan debt in 2020 since records began. As the public were restricted from spending on holidays and leisure, and saved money on not having to commute or fill up their cars with petrol, £16.6bn of net repayments was made on credit cards, personal loans, student borrowing and car finance last year. In a reflection of the extraordinary measures put in place to slow the spread of the virus, households also saved over £150bn last year pushing the savings ratio up to a record high of 27%.

However, not everyone benefited from the lockdown measures, particularly those who have been affected by redundancies. Unemployment has risen significantly since the start of the pandemic, meaning that 1.7 million are out of work. Almost nine million people were forced to increase their borrowing to cope with the pandemic. In addition, borrowing by companies trying to survive during the pandemic rose to a record £43.3bn, with the amount raised on financial markets a record £52.6bn.

House prices fell in January for the first time since June as the benefits from the Chancellor of the Exchequer's stamp duty concession began to fade according to the Nationwide House Price Index. Property values declined by 0.3% for the month bringing the annual rate of growth down to 6.4% from 7.3% in December. Concerns remain that the impact of rising unemployment and economic uncertainty will cause prices to fall during 2021.

Market update

Following the trading frenzy over the latter half of January, Gamestop, the video games retailer, saw its shares fall more than 50% on Tuesday (2 February) after a fall of 30% the day before. Gamestop's share price surged from around $20 a share on 12 January to close at more than $347 only 15 days later, an extraordinary rally that has taken Wall Street by storm. The phenomenon started when small investors using the Wallstreetbets thread on Reddit (a social news forum) targeted large hedge funds that had been betting against the stock through short positions.

Shorting a stock explained

Shorting, or short-selling, is when an investor borrows shares and immediately sells them, hoping he or she can scoop them up later at a lower price, return them to the lender and pocket the difference. Shorting is much riskier than buying stocks, or what's known as taking a long position. If the share price rises sharply after betting on the price falling the investor can face heavy losses. Short selling played a significant part in the financial crisis in 2008 with some financial and market commentators arguing the practice should be banned.

The incident appeared to spark market-wide volatility, as hedge funds scrambled to meet their obligations and close out bad bets, trading the highest volume of Shares since 2009, according to an analysis from Goldman Sachs. Silver is the latest asset to have been targeted by the same group of social media day trading investors - prompting the precious metal to rise to an eight year high forcing some hedge funds who have shorted stocks in certain mining companies to become buyers thus creating extreme volatility.

Regulators have promised to investigate and take action as concerns were raised about small investors being swept away on the surge in prices before the prices crash shortly afterwards. Scrutiny of the non-bank financial sector was already expected to be high on newly appointed Treasury Secretary Janet Yellen's agenda after hedge fund de-leveraging contributed towards turmoil in the US Treasury market in March 2020 as hedge funds had to sell vast quantities of US Treasuries to cover losses on some of their key positions prompting the Federal Reserve to step in and prop up the market, according to the Bank for International Settlements. This story highlights the importance of advice and guidance from experts before retail investors make their decisions about whether investing is appropriate given their individual circumstances and long-term plans.

Stock markets around the world ended January on a more negative note following a very strong start to the year. China and Emerging Markets were still the best performing regions with the FTSE 100 flat for January after a very strong fourth quarter last year. The UK market was boosted when sectors that had suffered most from the pandemic rose sharply as vaccine announcements provided light at the end of the tunnel for investors. Previously these sectors contributed to the UK market lagging behind others where technology Shares play a bigger part. Markets remain sensitive to continued lockdowns and announcements of new strains and variants of the virus. The key to continued market confidence will be initially in the US financial stimulus proposal being agreed and then the response of governments and central banks to the economic indicators as normal life restarts gradually and restrictions begin to lift in the spring.

Find out more

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Note: Data as at 2 February 2021.

Important Information