



# Market Update – COVID-19

February 22, 2021 Close unless otherwise stated

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# Our Views

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## Latest Views

- The Covid-19 vaccine roll-out and the outcome of the US election with a slim democrat sweep **reduces adverse playout probabilities**, limiting downside in risky asset markets and putting a floor on bond yields.
- We are **neutral on equities but emphasise that style, sector and regional views are more important at this stage**. We believe that value and non-US equities will be beneficiaries from a recovery in 2021.
- Bond yields have risen on the back of further stimulus and potential shifts in inflation. We believe that there are risks to yields creeping higher but that **bond yields below inflation levels reflect a policy choice** to prioritise weak public finances. This is unlikely to change.

## What should clients be doing?

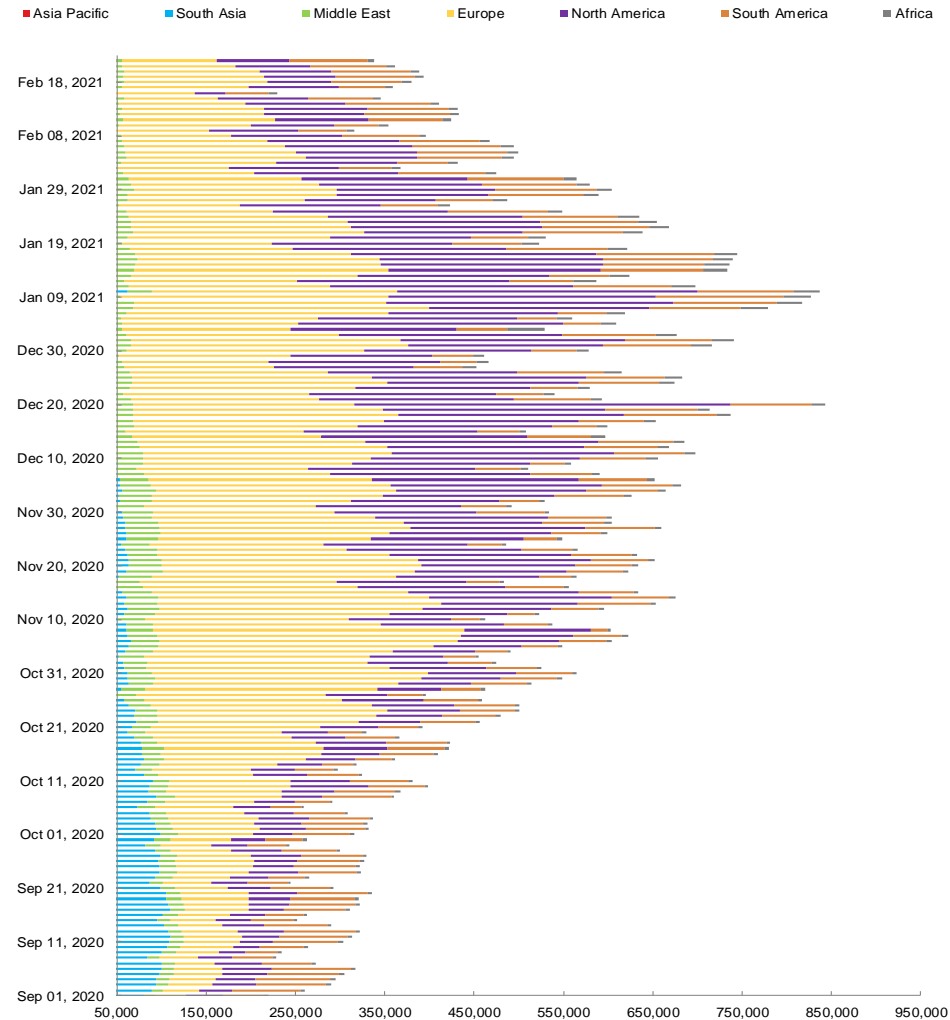
- **Not carry large portfolio over or underweights to equities** in this environment and carefully manage style and regional biases.
- Be more **selective in credit markets** as spreads have reduced meaningfully. Focus on segments where other premiums exist.
- Assess diversification and **add to unique diversifiers** that help reduce dependence on equity and government bonds.

# COVID-19 Update

## Current Situation (22 February 2021)

Global	
Confirmed Cases	111,102,016
Deaths	2,462,911
Europe	
Confirmed Cases	37,679,536
Deaths	840,485
United States	
Confirmed Cases	27,773,047
Deaths	493,976

## New COVID-19 Cases

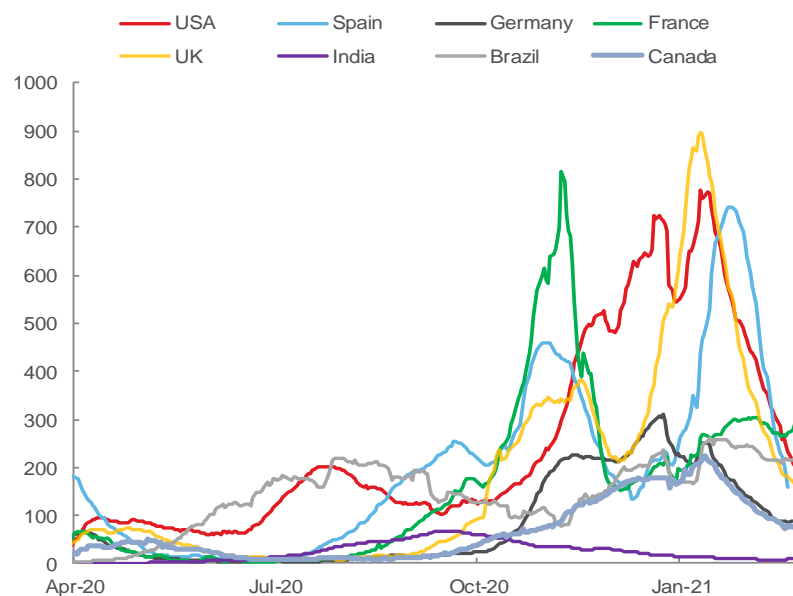


Source: FactSet, World Health Organization, National Health Authorities.

# COVID-19 Virus Trajectory

- Covid-19 cases continued to surge globally with new coronavirus strains identified across the world. However, equity markets continued to deliver positive returns as several major vaccines have received approval with the vaccination process starting in many developed economies.
- A new Covid-19 strain was identified in the UK and is believed to be up to 70% more transmissible than the previous dominant variant. It has caused the virus situation in the UK to re-escalate and the variant has now surfaced in other countries around the world. Major European countries including the UK, Germany, Netherlands and Sweden imposed strict lockdowns after a rapid surge in Covid-19 cases and deaths. Elsewhere, South Africa has halted the rollout of the AstraZeneca/Oxford vaccine after initial evidence suggested that the vaccine was not effective against the new local variant of the virus.

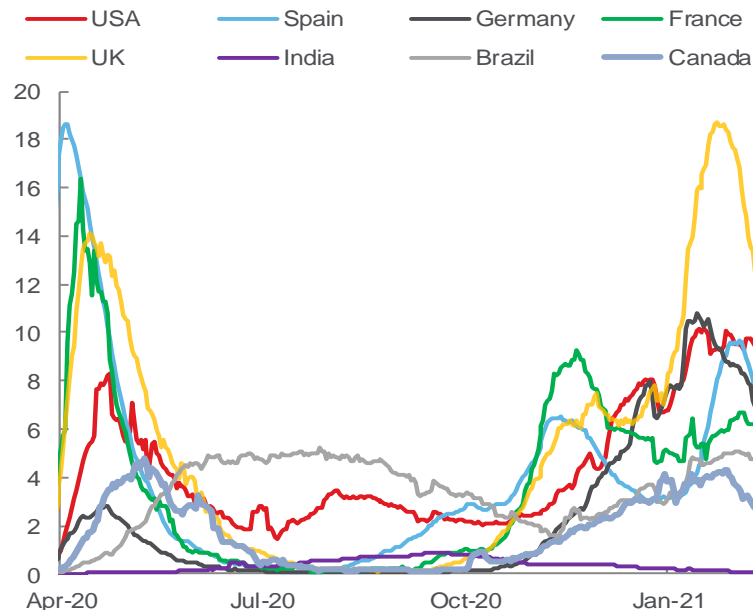
**New cases per 1 million (7-day moving average)**



Source: Aon, World Health Organization.

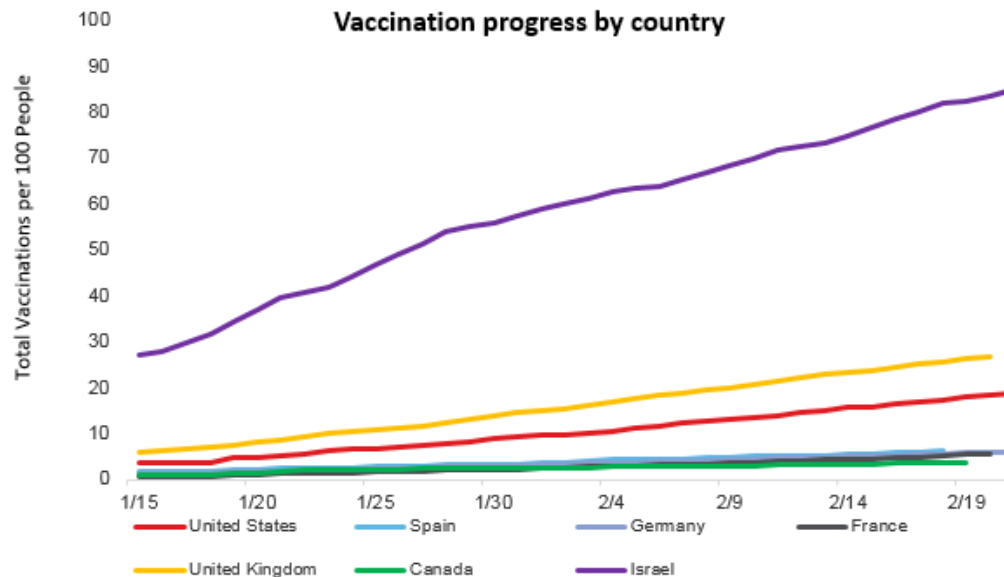
Data as at February 22, 2021. Please note; Spain data as at February 19, 2021.

**New deaths per 1 million (7-day moving average)**



# COVID-19 Vaccination Progress

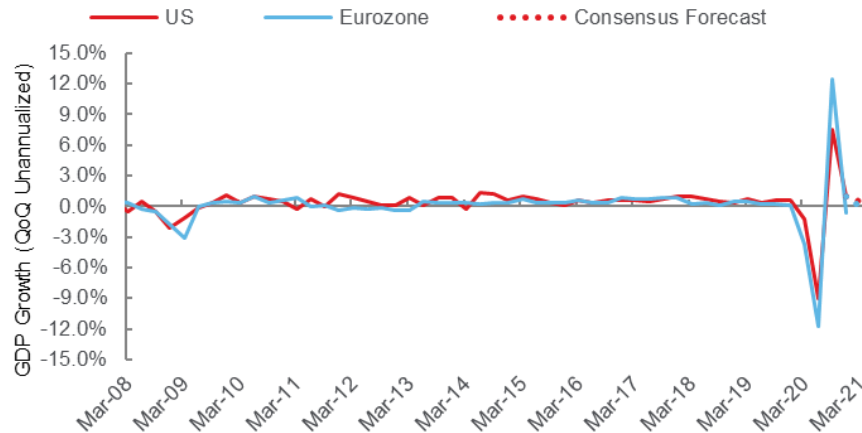
- Israel leads the vaccination race as the country was able to secure supplies of the Pfizer/BioNTech vaccines as a result of early negotiations. Data from Israel's health ministry suggested that the Pfizer and BioNTech Covid-19 vaccine is 89% effective in preventing infection and 94% effective in preventing symptomatic infection.
- Meanwhile, the UK has led major developed economies in terms of vaccine roll-out having started vaccinations in early December.
- Tensions between the EU and AstraZeneca rose after the drug maker signalled that it would greatly undershoot its original EU production targets. In response, the EU threatened to impose export controls on the Irish border after AstraZeneca remained committed to their UK production targets. The move by the bloc received widespread criticism around the world and the EU later reversed its stance on potential export controls.



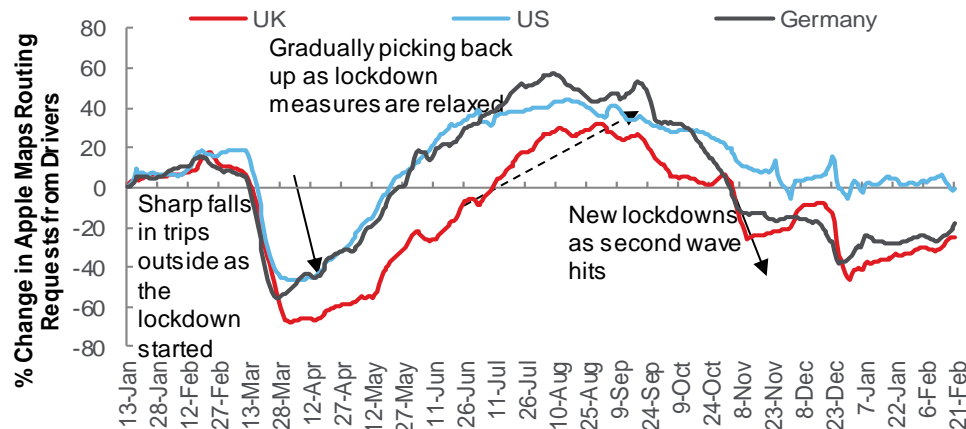
Note; US, Germany and Israel data as at Feb 21, 2021. UK and France data as at Feb 20, 2021. Canada data as at Feb 19, 2021 and Spain data as at Feb 18, 2021.

# A historically bad recession, but markets are pricing in a sharp recovery amidst optimism over vaccine development

## GDP rebounded in Q3 but the recovery slowed in Q4



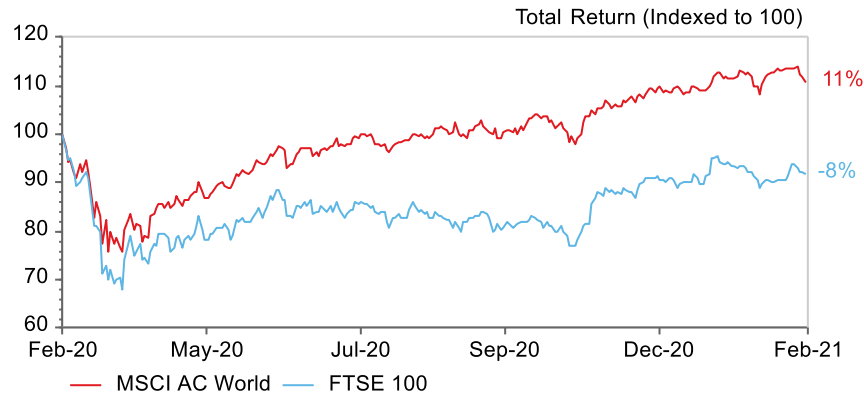
## UK ordered a third national lockdown while Germany also extended its stringent lockdown until the end of January.



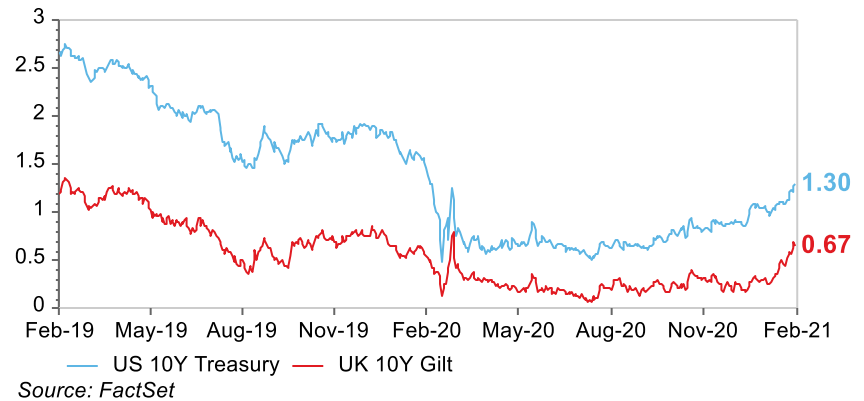
- Economies had slow growth in Q4 and economic activities remained below pre-pandemic levels.
  - The US economy grew at 1% over Q4 2020 following the 7.5% growth recorded in the previous quarter.
  - The UK economy suffered its worst annual economic contraction in more than 300 years as GDP fell by 9.9% in 2020. However, the UK economy grew by 1% in the final quarter of 2020.
  - The Chinese economy expanded by 6.5% in Q4 2020 and became the only major economy in the world to grow in 2020 as the economy expanded by 2.3% over the full year.
- Vaccine approval process gathered pace amidst surge in cases due to new variants of the virus.
  - The UK Medicines and Healthcare products Regulatory Agency and the European Medicines Agency both approved Moderna's Covid-19 vaccine on an emergency basis.
  - Meanwhile, Johnson & Johnson's single-dose Covid-19 vaccine trial reported an overall efficacy rate of 66%. Another US biotech company, Novavax, reported an 89% efficacy rate in a UK phase-3 trial and is also effective against other variants.

# Market Reactions

**Equity Market 1 Year (GBP terms)**



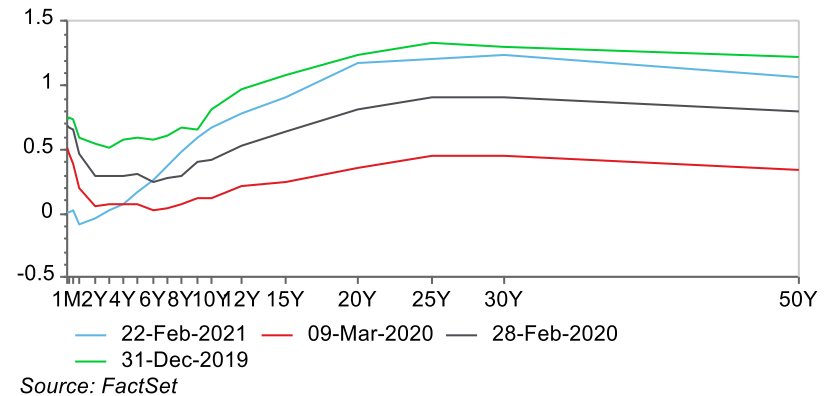
**Government Bond Yields (%)**



**VIX**



**UK Gilt Yield Curve**



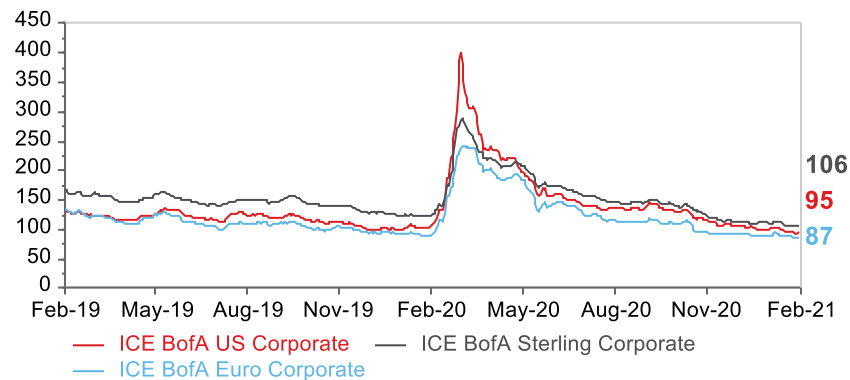
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23 February 2021

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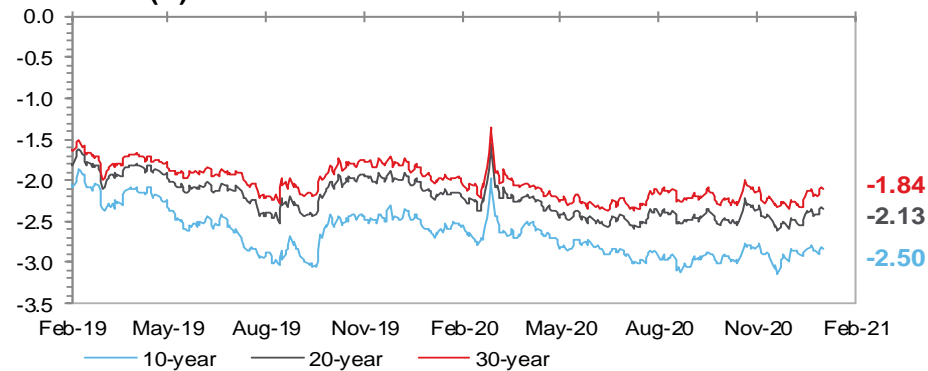
# Market Reactions

**Investment Grade Credit Spreads (bps)**



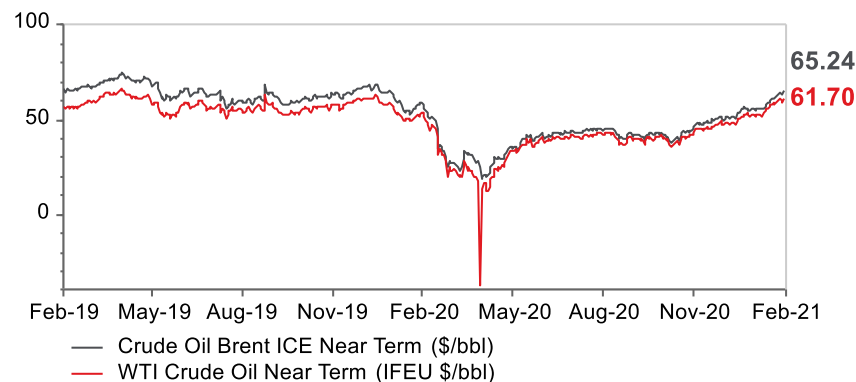
Source: FactSet

**Real Yields (%)**



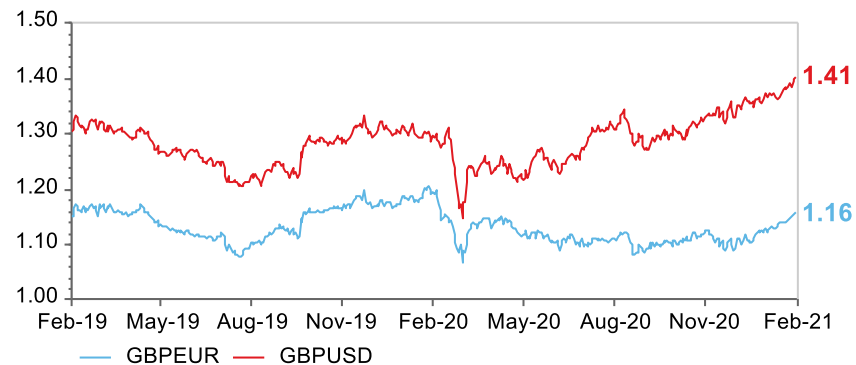
Source: Bloomberg

**Crude Oil Spot Price**



Source: FactSet

**Sterling Exchange Rate**



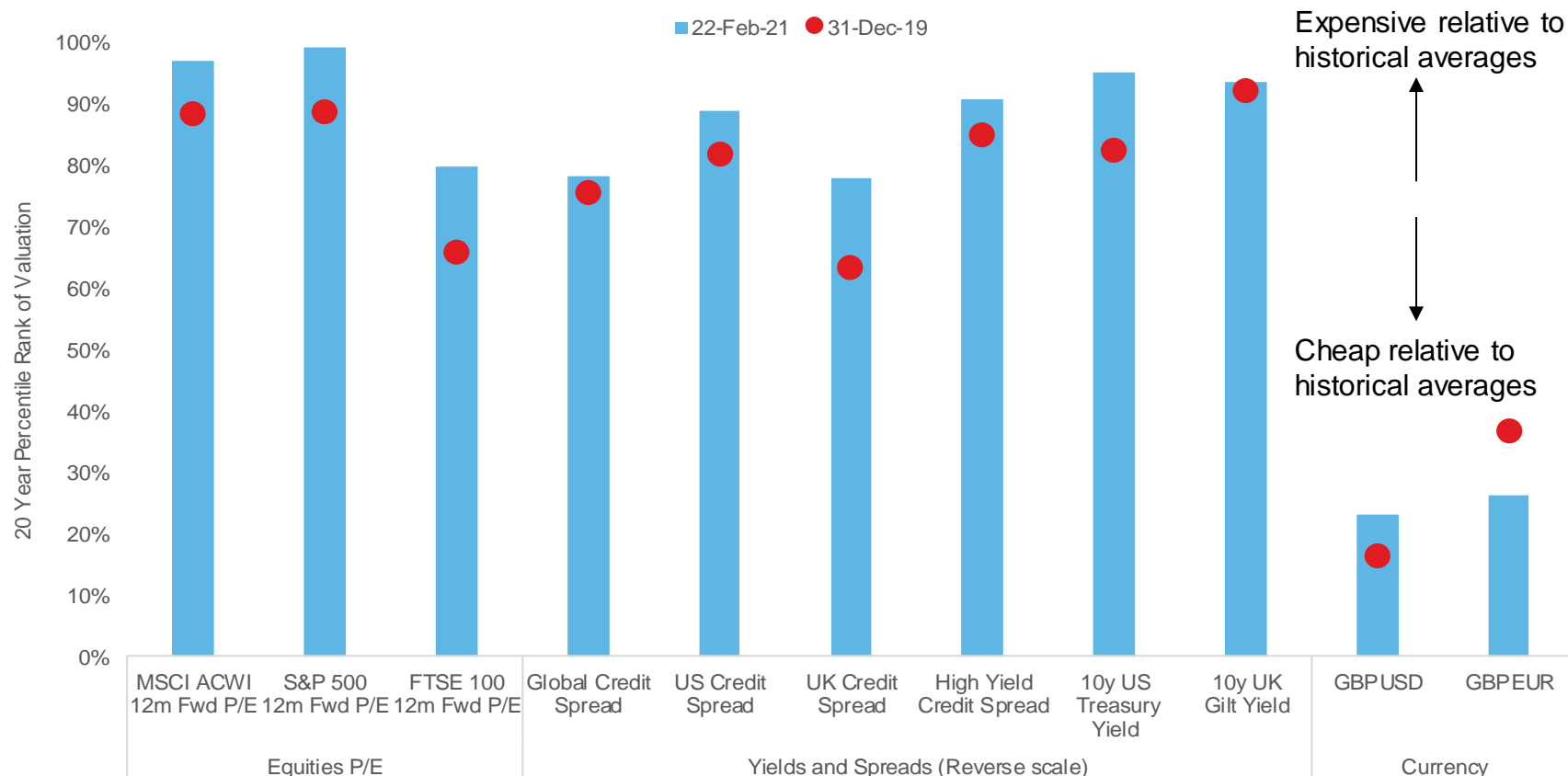
Source: FactSet

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# Market Valuations

Equity markets are looking expensive when valued using near-term forward earnings, but markets appear to be looking through near-term weaknesses. Note that forward looking measures of value may be using stale estimates, as the economic impact is so uncertain.



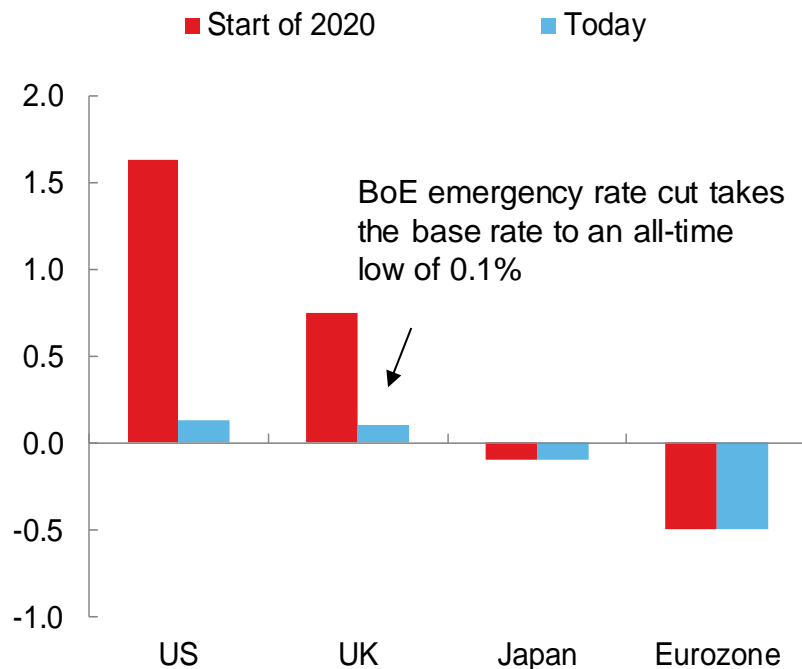
Source: Aon, Factset

Notes: Valuations used: Equity markets = Next Twelve Month PE Ratio, Credit Spread = Option Adjusted Spread, Treasury Yield = Yield To Maturity

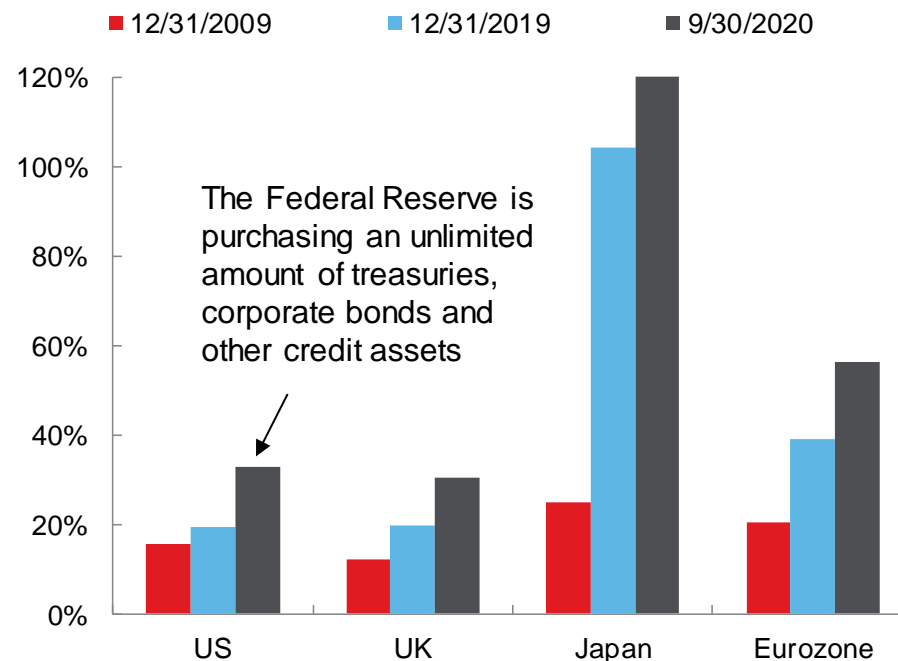
# Central Bank Actions

- Where possible central banks around the world have eased policy, but with rates being low there is a limit.
- Unprecedented new quantitative easing measures have been announced to provide further monetary stimulus.

## Central Bank Policy Rates (%)



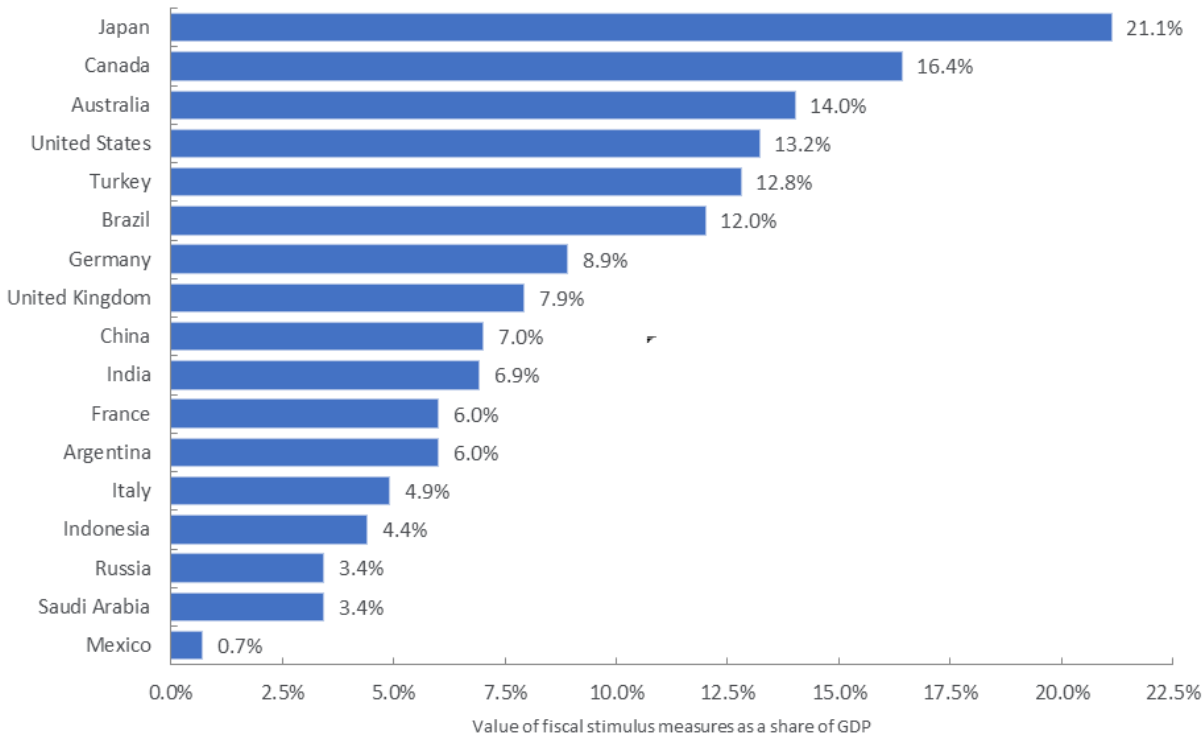
## Central Bank Balance Sheets as % of GDP



Source: Aon, Bloomberg, FactSet. Balance sheets to GDP ratios as at 30/9/2020 have been calculated using GDP figures from the end of 2019. Past performance is no guarantee of future results.

# Fiscal Packages Are Large Across the G20

Value of COVID-19 fiscal stimulus packages in G20 countries as of October 2020, as a share of GDP



Source: IMF

Note: UK data as at July 2020.

## USA

- President Biden signalled his plans for a new stimulus package worth an estimated \$1.9tn and signed several executive orders on his first day in office. The proposed stimulus package would add to the previous package worth \$900bn which was signed by President Trump in December 2020.

## UK

- A new £4.6bn financial support package for companies and local authorities affected by the imposition of new lockdowns.
- £330bn in loans and £20bn in other aids have been announced to provide help to businesses.
- The government has agreed to cover 80% of salary for employees who are unable to work due to coronavirus related shutdowns. The scheme has been extended and will now end in Spring 2021.

## EU

- The EU passed the bloc's €1.8tn budget and recovery package after Hungary and Poland reversed their vetoes. The European Central Bank increased the size of its Pandemic Emergency Purchase Programme from €1.35tn to €1.85tn and extended the program until March 2022.

# Appendix

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