Monthly Market Review February 2021

Welcome to Q5 2020

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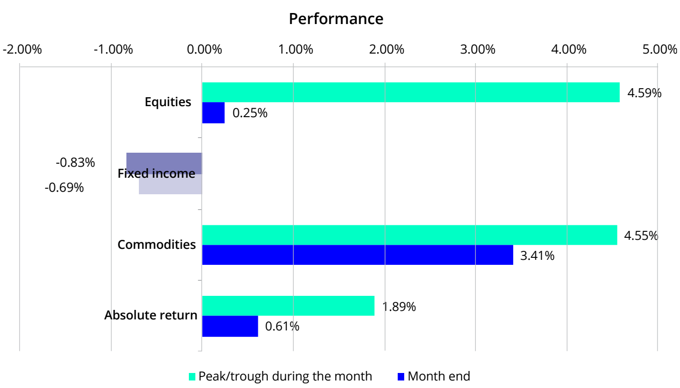
January 2021 Review

If we had hoped that January would start quietly and mark a departure from 2020, well that has gone by the wayside. The same themes have raised their head persistently in the first month of 2021 and we've had some new ones to add to the mix.

Covid-19 remained at the top of the agenda with worsening data for much of January, and as anticipated the speed of the vaccine distribution is proving problematic and will be atop the political agenda for some time. But there was also good news with new vaccines emerging that may help broaden its distribution. The US Federal Reserve (Fed) and the European Central Bank (ECB) both weighed in again with soothing messages and we've seen intent from the new Biden administration – although it remains to be seen whether the scale of fiscal stimulus will emerge at the numbers being sought. January also saw headlines being grabbed by the meteoric price rise of Gamestop after it became the target for a tug of war between day traders and hedge funds. Finally, to add some new uncertainty into geopolitics, Russia saw street protests of a kind not seen in a generation and the month closed with a military coup in Myanmar.

Equities peaked around the 20th of the month (see figure 1 below), but shed most of the gains by month end with the final days seeing volatility return to levels not seen since October of last year. That said most of our funds will have ended the month marginally positive. (Source: Investment Markets, February 2021)

Figure 1: Asset class performances January 2021



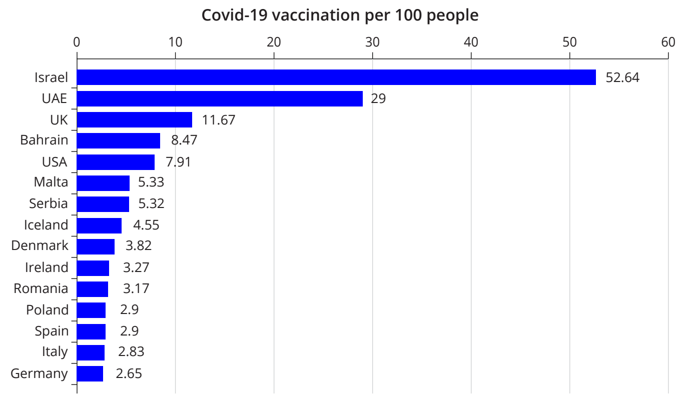
Source: Bloomberg 31/1/2021

6 snippets for January 2021

1. New vaccines en-route as the race begins

January saw the vaccination race get truly underway and by the end of the month it was Israel, certain small Middle Eastern states, the US and UK that were in the lead (see figure 2 below). Europe was lagging somewhat and at time of writing the debate about Astrazeneca's lack of delivery to the EU had become heated, just as Moderna cut its delivery.

Figure 2: Covid-19 vaccination per 100 people



Source: Our World in Data 02/2/2021

January also saw significant advances in a number of the vaccines under development:

- Johnson & Johnson reported 66% efficacy against Covid-19 in their one-jab vaccine, which once available will help speed up distribution when compared to the two-jab solutions currently available.
- US firm Novavax also reported its vaccine to be 95% effective against the original virus and importantly that it was 86% effective against the new UK strain.

2. Virus mutations

The emergence of new strains of Covid-19 was inevitable and if they follow the pattern of other viruses in the past, they are likely to be both more infectious and less lethal. Thus far there are five significant variants* that pose a challenge to the pace at which we can expect to see an end to the Covid-19 era. The first appeared in Spain which over several months became the dominant variety in Europe and it is believed it spread after the first lockdown was lifted. However it is not seen as more transmissible than the original. The second which appeared in the UK, and has since become the dominant strain in the UK

* Scientific American 29th January 2021

WARNING: Past performance is not a reliable guide to future performance.

and Ireland. It is believed to be both more transmissible and based on initial data from the UK, a slightly more lethal version than the original.

The third variant was identified in South Africa and has since become the dominant strain in that country. It is believed that it may have a slightly greater resistance to the vaccines compared to the original.

The fourth and fifth variants appeared first in Brazilian city of Manaus. One of these has a greater number of mutations than the other variants making it potentially more resistant.

So far, markets have remained unshaken by the variants interpreting it as being a manageable challenge that does not significantly change the trajectory for resolution of the pandemic – this assumption remains a risk. (Source: Investment Markets, February 2021).

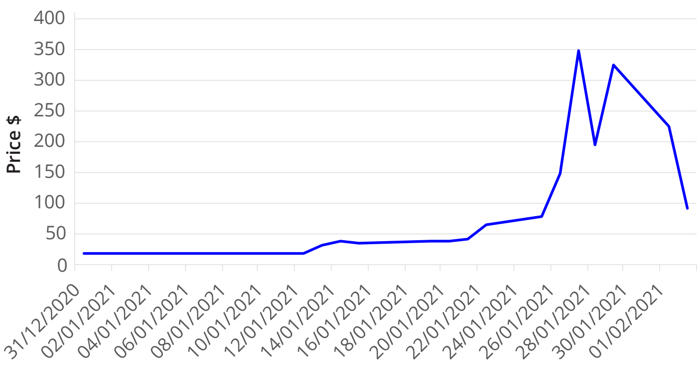
3. Bubbles appearing?

Hot on the heels of Tesla and Bitcoin, January saw Gamestop added to the list of bubbles as the video game retailer saw its share price rise from about $19 at the start of the month to reach $350 on 27th January. It fell back to $190 the following day as restrictions came into place, only to rebound again as restrictions were lifted and the price reached $325. Since then it has traded down again as the focus shifted away from the stock ($53 at time of writing) (see figure 3 below). (Source: Bloomberg, February 2021).

Prior to this, Gamestop was seen as a somewhat outdated business and it was heavily 'shorted'** by hedge funds – a bet that the share price would fall. Behind what has since happened was a surprising situation in which large numbers of day trader investors essentially bet against the positions held by hedge funds ultimately forcing the hedge fund investors into buying the stock, which in turn forced the price sky high. At time of writing, silver looked like it was becoming the next target.

** Shorted refers to short selling which involves borrowing a stock from an investor then immediately selling it, in the hope that its price will fall and it can be bought back later at a cheaper price. A profit is realised based on the price decline (or a loss if the price rises).

Figure 3: Gamestop share price early 2021



Source: Bloomberg 03/02/2021

4. Central Banks provide supporting backdrop

Both the ECB and the Fed delivered soothing messages to the market during January essentially saying that they would be maintaining their policy settings for the foreseeable future. The ECB kept its key deposit rate at -0.5% and maintained its bond-buying programme at €1.85 trillion indicating they would stay active in the market until March 2022 at the earliest. The Fed, as expected, also kept its rates unchanged and gave investors enough assurances that they remain accommodative given the current impact of the pandemic. Most measures of global liquidity are demonstrating the effect of this and it remains probably the most powerful force supporting markets. (Source: Investment Markets, February 2021).

5. President Biden limbers up

President Biden has been busy in his early days in office, using a flurry of Presidential decrees to repeal much of what characterised the previous presidency. The US re-joining the WHO and the Paris Climate Accord signal a return to international participation that is most welcome. Biden is pushing for a significant $1.9 trillion Coronavirus stimulus plan for the US. Many commentators believe it will inevitably get watered back down towards the $1 trillion level, unless he decides to force it through Congress using the wafer thin majority the Democrats currently hold. Markets are keen to understand how this develops and US bond yields dropped back slightly towards the end of the month as it was anticipated that the package would get reduced somewhat. (Source: Investment Markets, February 2021).

6. Political risks resurface in Emerging Markets

The most significant protests in a generation erupted across Russia towards the end of January, as supporters of jailed opposition leader Alexei Navalny took to the streets. It remains to be seen whether this grows into something more significant. So far it has not impacted on markets, although the Rouble has been weaker this month. (Source: Investment Markets, February 2021).

Separately, Myanmar's military is believed to have staged a coup, detaining Aung San Suu Kyi, and voiding her landslide November election victory. Emerging Markets have become increasingly popular with investors in recent months given the generally lower valuations and higher yields, but both of these recent events serve as a reminder of the challenges that can be faced.

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