FE Investments

WEEKLY MARKET COMMENTARY 13 November 2020

MARKETS CHEERED BY SUCCESSFUL VACCINE TRIAL

This week we saw how much markets want to believe that recovery from Covid-19 is just around the corner. The sharp rally in risk assets at the beginning of the week allowed out of favour equity sectors to regain some of the ground lost this year, with airlines, travel and energy stocks all seeing values surge on news of a successful trial by Pfizer and BioNTech. Stay at home tech stocks fell slightly, while government bond yields jumped as investors speculated that the return of inflation will cause central banks to revisit their interest rate policies. However, the ongoing spread of Covid-19 and realisation that even a successful deployment of a new vaccine will take many months has seen the rally peter out.

Elsewhere, while Westminster's attention has been focussed on squabbling in Downing Street the countdown to Brexit goes on. After today there are only 32 working days left to secure a deal and, with Joe Biden booking the removal van for the White House, pressure is increasing on the government to agree a deal.

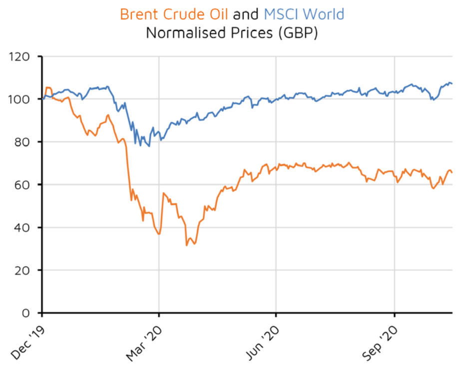
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+6.90%	+0.76%	+4.36%	+7.23%	+1.73%	+0.0.7%	+0.07%	+9.45%	-3.97%	-3.03%	+0.04%

MARKETS: NEWS OF POTENTIAL VACCINE CAUSES RISK ASSET RALLY

A successful coronavirus vaccine trial caused an outburst of optimism in financial markets. Global equities hit an all-time high as equity markets in general rallied strongly. Previously out of favour sectors, such as airlines, saw the biggest gains after the much better than expected trial results for the vaccine being developed by Pfizer and BioNTech. Hopes that life could begin returning to normal saw some tech stocks fall while speculation that inflation will begin to pick up and central banks may increase interest rates sooner than expected triggered a sell-off in government bonds. The price of oil increased sharply on hopes that global travel and industrial output will also pick up quickly, while gold fell.

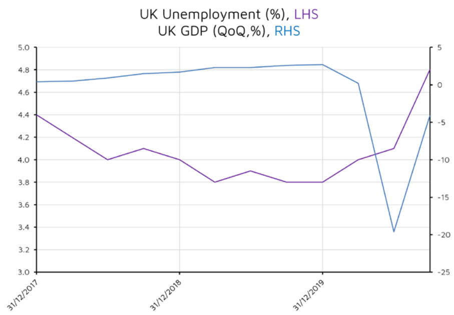
Although the gains were significant, Rolls Royce shares jumped 40 per cent on Monday, the rally was short lived as exuberance at the potential for an end to the coronavirus crisis gave way to realisation that the virus will remain a problem for many months. Meanwhile the second wave continues to spread with the US alone recording 150,000 new cases a day.



UK: RECORD GDP GROWTH BUT RECOVERY ALREADY FADING

The UK's economy rebounded in the three months to September growing by 15.5 per cent. The record quarterly growth saw most businesses, shops and restaurants open after the general lockdown of Q2. However, the rapid increase in economic activity was not enough to fully recover from the lockdown and the UK economy remains 9.7 per cent smaller than before the coronavirus outbreak. The UK's recovery has also lagged behind other developed economies.

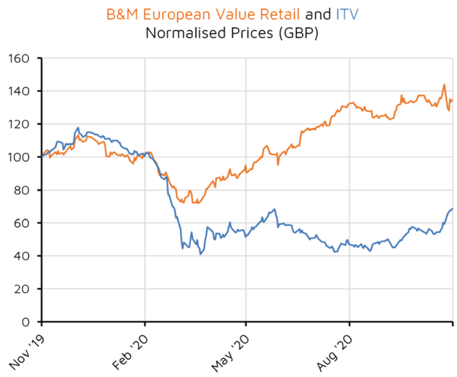
Monthly GDP figures show economic growth slowing rapidly over the quarter, with monthly GDP growth for September just 1.1 per cent. The latest UK unemployment figures also point to the UK's recovery beginning to falter, even before the latest lockdown. Unemployment in Q3 rose to 4.8 per cent, an increase of 0.7 percentage points over the previous quarter. Data from the Office for National Statistics shows unemployment is rising fastest amongst 16 to 24-year-olds, those in part-time work and the self-employed.



EQUITIES: B&M TO PAY SPECIAL DIVIDEND DUE TO LOCKDOWN SALES SURGE

The first quarterly results since B&M European Value Retail replaced ITV in the FTSE 100 shows the companies continued contrasting fortunes. ITV has struggled with falling advertising revenue in recent years as viewers move to streaming services. Advertising revenues for Q3 were down 7 per cent year-on-year and are down around 16 per cent so far for the full year as the coronavirus has disrupted programme making. Despite advertising recovering slightly in Q4 it continues to lose viewers and its viewer share of broadcast output fell 4 per cent.

B&M continues to benefit from a change in shopping habits brought about by lockdown as more consumers adopt a thrifty attitude. Its half year pre-tax earnings of £295m exceeded expectations and are almost double the figure for 2019 as it said new customers acquired when it stayed open during lockdown have stuck with the company. It announced a second special dividend as well as a 60 per cent increase in its regular dividend. So far this year its shares are up 42 per cent.



Data Sourced from FE Analytics, and Bloomberg Finance LP