

The background features a complex digital visualization of financial data. It includes a 3D bar chart with blue and purple bars, a line graph with a red line, and various floating numerical values such as 13.7941, 90.8455, 44.1215, 31.6466, 69.8112, 92.266, 96.484, and +12,00.5. The overall color palette is dominated by deep blues, purples, and oranges.

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Investment Services

Reeves Market Outlook

January 2021

1. The World Begins to see Successful Vaccine Developments

Developments around Coronavirus vaccines have understandably dominated the news since the announcement of the Pfizer vaccine's 90% effectiveness, with Moderna and Oxford following closely behind. With infection rates rising again across Europe and economies suffering from lockdown restrictions, markets have been buoyed by the hopes of an effective vaccine being rolled out in 2021.

Relevance/Impact

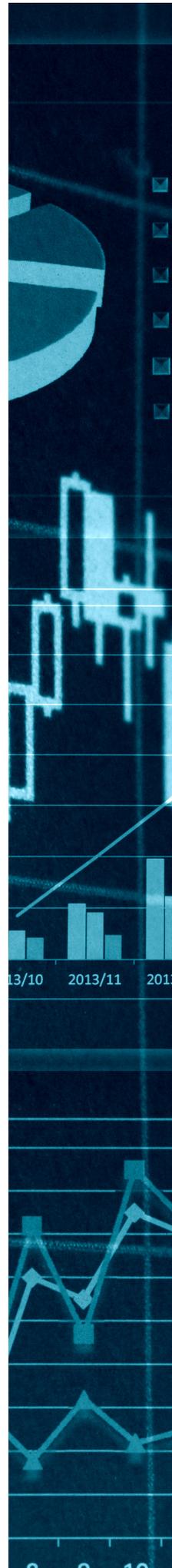
Following the Pfizer announcement global markets immediately jumped several percentage points with the FTSE 100 seeing an increase of 4.7%, its biggest one-day gain since March. The most significant stock gains prompted by this news were of those companies who have been most affected by the government restrictions, with a vaccine providing hope that they can return to the same operating conditions they enjoyed pre-Covid.

Although approvals are yet to be confirmed, general investor sentiment is more optimistic because at least three different vaccines are in the late stages of development giving confidence that the second half of 2021 will be more 'normal' in terms of economic activity.

The market reaction to the approval of a vaccine will depend on which one it is and is likely to vary greatly between countries. As well as the issue of which countries have purchased the vaccine, there is also the issue of distribution, with the Pfizer vaccine required to be stored -70°C while Moderna's vaccine requires -20°C . Airlines are scrambling to prepare for ultra-cold storage required for transport, while Pfizer is in talks with the likes of DHL and FedEx for delivery of the vaccine in the US.

Source:

Guardian (9th November) - Global stock markets surge after Pfizer Covid vaccine news
<https://www.theguardian.com/business/2020/nov/09/stock-markets-covid-vaccine-ftse-100-coronavirus>



2. UK Economy Will Contract Close to 11 Per Cent in 2020

Rishi Sunak's spending review is set to contain the largest downgrade in economic performance and the public finances since the second world war, with the Bank of England forecasts predicting the UK economy will contract close to 11 per cent in 2020, the worst annual performance for more than 300 years.

Relevance/Impact

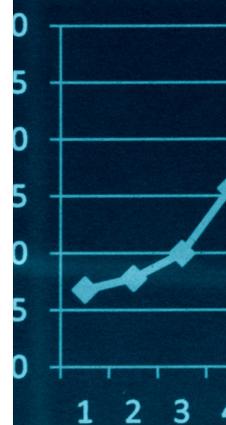
The pandemic has caused a very significant deterioration in UK public finances, with the exchequer seemingly being forced to make strong decisions on taxes and public spending. Although tax rises and cuts to spending are expected before the next election, the timing and potential impact of any such moves is uncertain.

With forecasts predicting the economy won't recover its 2019 peak until late 2022 Boris Johnson has announced plans to reset his government, with a focus on a 'green industrial revolution' in an attempt to boost the economy's growth through infrastructure spending. He has also promised a £16.5bn military spending boost, representing the biggest UK defence investment for 30 years.

In terms of financial markets, the UK has seen mixed performance as investors grapple with the optimism of the vaccine developments and increasingly likely Brexit deal while seeing record rises in Covid cases and 'scary' forecasts for the UK economy. UK assets are relatively undervalued and unloved compared to others such as US equities and could see impressive growth should vaccine developments continue to map a way out of the Pandemic.

Source:

FT (18th November) - Sunak faces worst hit to UK finances since second world war
<https://www.ft.com/content/2883c55f-e4e1-40c2-9075-62c96dd6ecd8>



3. US Election 2020: Biden Claims Victory

After crossing the 270-seat threshold Joe Biden is set to become the 46th president of the US in what is being tipped as one of the most important elections in recent history. Donald Trump is still however targeting postal votes and vote certification in a late bid to block Biden.

Relevance/Impact

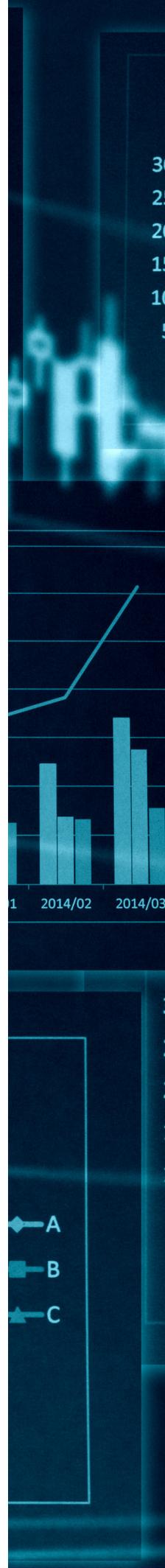
While Trump has been accused of not taking the virus seriously enough, Biden used tackling the virus as a significant focus of his election campaign. For Biden, the virus is the main threat: he is likely to join the rest of the western world in fighting the virus with lockdowns and social distance measures to buy time while the vaccines are developed.

The market response to the election result shows what investors expect. The Nasdaq composite index, which is mostly made up of technology and internet-related companies, rallied strongly as people expect more lockdowns which have been much more favourable for online businesses.

With the election result now seemingly out of the way, subject to recounts and court challenges, markets are now turning their attention towards the implications a divided government may bring. If the Democrats do not have congressional control, the transformational policies that Biden brings are likely to fall very short of what the Democrats are proposing.

Source:

FT (19th November) - Biden's win changes the mood music for markets
<https://www.ft.com/content/e9027cd0-f6b7-491e-84d8-656c6e8a0aed>



4. Dollar Expected to Slump

There is an expectation among currency analysts that an approval of one of the Coronavirus vaccines could cause the dollar to sink as the global economy rebounds and confidence returns.

Relevance/Impact

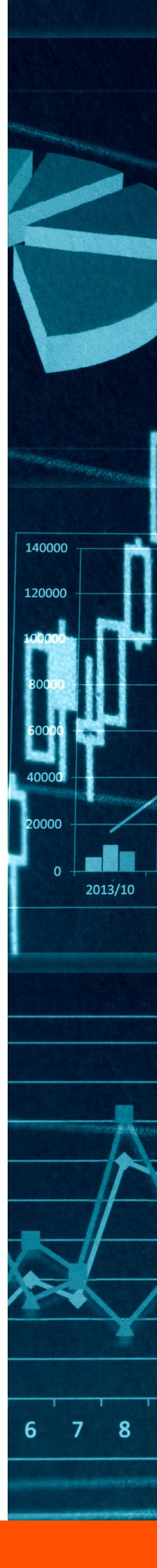
The Dollar is traditionally in demand in times of market stress and is seen as an asset allocation tool or 'safe haven' for investors as well as savers. This can be seen in instances such as the rally in the Dollar at the height of the virus outbreak in March.

Many big banks already held negative views towards the Dollar in 2021, the recent developments on the vaccine front have bolstered forecasts that an economic recovery could be a reality in 2021. Some analysts have gone as far as to say a 20% fall is feasible if a vaccine is widely available globally, as investors move back to a 'risk on' approach and search for more lucrative growth potential in Emerging markets.

Zach Pandl, co-head of Goldman Sachs global foreign exchange research said "Even if the US economy performs quite well, we think the dollar can weaken substantially as investors look for higher returns outside of the US and exit the safe havens that they have been in throughout the Covid period,"

Source:

FT (19th November) - Vaccine arrival expected to trigger dollar slump in 2021
<https://www.ft.com/content/d2a226b8-574a-4d1c-9205-fa076ed97055>



5. Gold Prices Slump as Vaccine Optimism Surges

Gold has posted an impressive two-year bull market rally that saw the price reach record high in the August of this year. However, the recent positive influx of news surrounding the possible successful vaccine for Covid-19 is threatening to end this bull market and is causing the Gold Price to falter.

Relevance/Impact

Gold is well known for being a historic 'Safe-Haven' in times of economic uncertainty and is also considered an excellent diversifier to any portfolio built using Bonds and Equities. However, when equity markets start to rally, investors tend to pull their money away from Gold and into higher income producing assets.

Since the Gold Price reached its peak of over \$2,000 a troy ounce back in August, it has already experienced a fall of over 10% as there has been some confidence in global equity markets.

There is currently an almost 'tug of war' between short term optimism and the long-term economic reality of the continuing pandemic. As more and more news has come to light describing the successful trials of multiple Covid-19 vaccines we may be seeing the beginning of a sustained fall in price of the commodity.

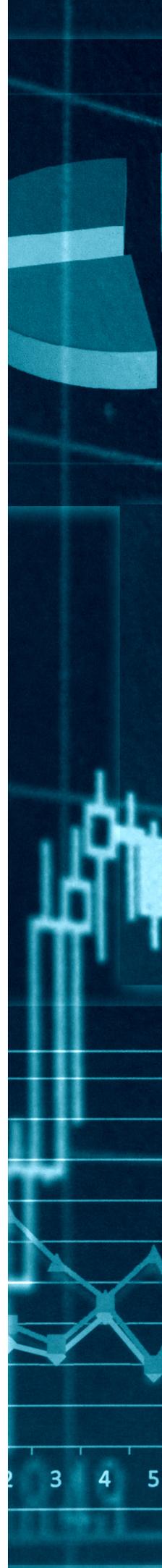
A longer-term economic recovery in global equity market does unfortunately signal a fall in the price of Gold as we move into 2021. However, we do still have a long way to go before the world returns to normal and so the Gold price could well have further to go.

Possible vaccination delays could also see investors into rushing back into the precious metal. The larger driver that can push Gold prices higher is the possibility of reflation added to growing concerns of recovery. Additionally, as Central Banks continue to provide stimulus keeping yields suppressed on other assets, Gold prices could see new highs.

Source:

Guardian (16th November) - Here are the major hurdles ahead for Covid-19 vaccine distribution in the US
<https://www.theguardian.com/world/2020/nov/16/us-coronavirus-vaccine-distribution-challenges>

JPMorgan (12th November) - How Are Markets Reacting to the U.S. Election?
<https://www.jpmorgan.com/insights/research/market-reaction-2020-election>



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Reeves Independent Limited: 30 High Street, Gosforth, Newcastle Upon Tyne, NE3 1LX
Tel: 0800 989 0029
Email: info@reevesifa.com

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