

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, 44.1215, 31.6466, 92.263, 69.8112, 90.8455, 96.4834, and +12,00.5. The overall color palette is dominated by deep blues, purples, and oranges.

REEVES
INDEPENDENT
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Investment Services

Reeves Market Outlook

February 2021

1. UK Reaches Brexit Trade Deal with EU

After months of complex negotiations, the UK and EU agreed a deal on December 24th that came into effect at 23.00 GMT on December 31st. The deal defines the rules on how the UK's new relationship with EU will work. The FTSE 100 hit its highest point since March when markets first opened after the deal was announced, gaining 137 points by midday.

Relevance/Impact

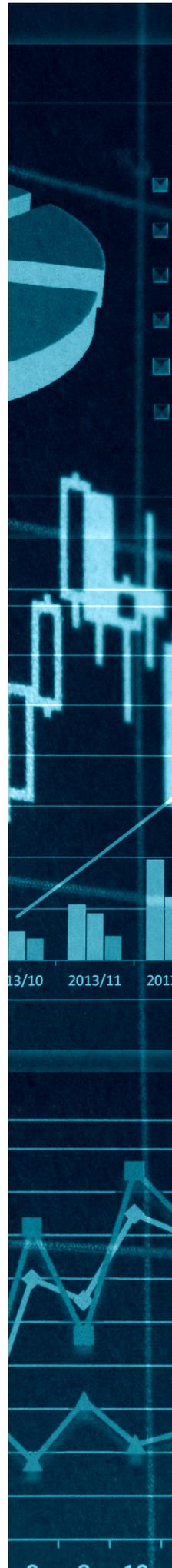
Investors were quick to praise the historic last-minute deal reached with the EU, giving it a 'thumbs up' and breathing a sigh of relief that the UK market would not experience the fall that was predicted if we left the EU without a deal. The conclusion of a deal removes much of the uncertainty that has been a strong headwind for the UK markets since the referendum.

It is expected that in the coming months the biggest winners, in theory, may be domestically focused companies, which should be taken into consideration by investors. The hope is that global investors will now begin to see the UK stock market as investable rather than a 'pariah of uncertainty'. Many are predicting that the positive news of the deal will result in the pound strengthening against the US dollar over the next 12 months. Investors in UK equity funds, which were among the worst performers of 2020, are hoping the trade deal will result in an improvement in performance. A strong opinion across many firms is also that smaller companies in the UK will outperform the larger companies that have dominated the market in 2020. Reeves Independent utilise a variety of UK equity firms to gain exposure to the possible growth in this sector. The UK stock market is also incredibly diverse with companies growing both in the UK and overseas.

Of course, the UK's reaction to Covid-19 and the subsequent rollout of vaccines will play a part in the market's behaviour, so the positive impact of the deal may not be felt as quickly as some may have hoped.

Source:

Interactive Investor (29th December 2020) How the UK market and investors reacted to Brexit deal
<https://www.ii.co.uk/analysis-commentary/how-uk-market-and-investors-reacted-brexit-deal-ii514611>



2. Biden's Inauguration Marks a Return to Predictability

As Financial Times rightly points out, although the new President does not represent a return to normalcy yet, as we edge closer to the 12-month mark of the pandemic, we can expect more predictability in his administration. Many see this as a positive for markets, which have endured years of volatility brought on by Trump's impulsiveness and extensive use of Twitter.

Relevance/Impact

Global shares have reacted positively to the welcome of the 46th President, buoyed by his promise of \$1.9tn in stimulus spending, with government stimulus the main reason why markets have recovered so quickly thus far. Markets are celebrating the idea of Biden overturning several of Trump's actions, the most notable of which was stopping the US's departure from the WHO and re-joining the Paris climate accord. The rise in the S&P 500 on the 20th January was the biggest on any presidential inauguration day since Ronald Reagan was sworn into office for the second time in 1985.

Similar to the Paris accord reversal, Biden's climate plan is the boldest of any US president in history, with his stance on clean energy a driving factor in his election campaign. Although its early days in his administration, markets are optimistic about the change he will bring to the US. He takes a significantly different approach to tackling COVID-19, the threats of climate change and the US relationship with the rest of the world. Of course, the US has a long path to economic recovery and there are several factors that could help or hinder this journey.

Source:

FT (25th January 2021) Joe Biden brings a welcome return to normal <https://www.ft.com/content/72387f76-deaf-4dd7-bf2c-eadb414e792a>



3. Vaccine Boosting Markets

Since the beginning of 2021 markets around the world have rallied at the news of successful vaccine rollouts, presenting potential opportunities for investors heading into the rest of the year. Israel and the UAE are currently leading the world at rolling out the vaccines, followed by Bahrain and the UK, and the response of their respective markets should hopefully be an indication of what is to come. With the UK Government on track to vaccinate the top four priority groups by mid-February, there is a feeling of optimism that the FTSE 100 will maintain its rally and UK markets will continue their recovery into 2021.

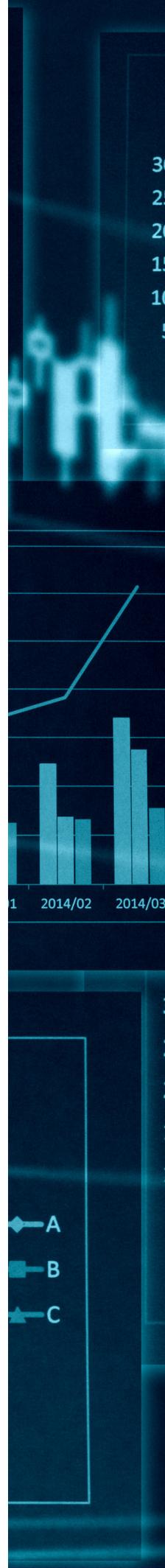
Relevance/Impact

The share of a countries population to be vaccinated could be one of the most important statistic to track this year. There is a belief that UK markets could be in a good position in the coming months as the UK reaches herd immunity faster than the remainder of Europe due to its strong vaccination progress. Europe appears to be lagging in the vaccine roll-out and in its fiscal support. For both businesses and individuals across Europe, this isn't the good news they are needing.

However, it should be noted that new strains of the virus found in Brazil and South Africa are causes for concern, with their resistance to current vaccines not fully understood at this moment in time. Despite Moderna reporting they have developed a trial vaccine to tackle the South African variant, there is certainly an argument for investors to err on the side of caution until researchers know how much resistance vaccines will give against the new strains. There are differing opinions on this matter however, as once a vaccine is available many say it is possible to alter it to become effective against the mutant strains. Should vaccines not be as effective at creating an antibody response, it would be expected that there will be a negative market reaction around the world.

Source:

Financial Times (25th January 2021) Moderna develops new vaccine to tackle mutant Covid strain
<https://www.ft.com/content/c0c8f72c-e58e-4319-80c4-0db153ad85db>



4. Largest Rise in Unemployment Since the Global Financial Crisis

Unemployment rose to 5% from 4.9% in the three months to November, as COVID-19 continued to hurt the jobs market. The Office for National Statistics released figures showing 1.72 million jobless, the highest level in five years and 418,000 more than in the same period the previous year. The largest loss of jobs was seen in those sectors worst hit by the pandemic restrictions, such as hospitality and retail, with those aged 25 to 34 facing the biggest risk of losing their jobs as a result.

Relevance/Impact

The UK economy continues to be affected by the business closures brought on by the pandemic, with the UK having a bias to the service sector, it continues to be hit particularly hard. The Furlough scheme is estimated to end in April, leading to estimates of a sharp jump in jobless figures to 6% or 7%. This has prompted many to urge Chancellor Rishi Sunak to extend the scheme, with business groups convinced that the scheme needs to be expanded and linked with how successful the vaccination program is. The government is facing the dilemma of risking further economic scarring if they choose not to extend the scheme and leave thousands of people and businesses to fend for themselves without a buffer, while an extension would cause further havoc to the already staggering government borrowing.

Over 2020 the UK Government borrowed a record £394bn in an attempt to minimise the damage caused to the economy. In addition, the UK are still experiencing a record low Bank of England Base Rate of 0.1%. Despite these measures, it is still predicted by the Office for Budget Responsibility that the UK economy shrank by over 11% last year and will not return to the pre-pandemic levels until the fourth quarter of 2022.

Source:

BBC News (26th January 2021) Big rise in redundancies among young people
<https://www.bbc.co.uk/news/business-55808052>



5. Investor concern mounts over rising markets.

With markets floating on an unprecedented wave of monetary and fiscal support, bond yields at near historic lows, and investors sitting on piles of excess cash, fund managers are on alert for a market pullback. Rallying stocks and speculation by amateur investors is resulting in growing concerns among market veterans that a bubble is forming to rival anything seen in the past century.

Relevance/Impact

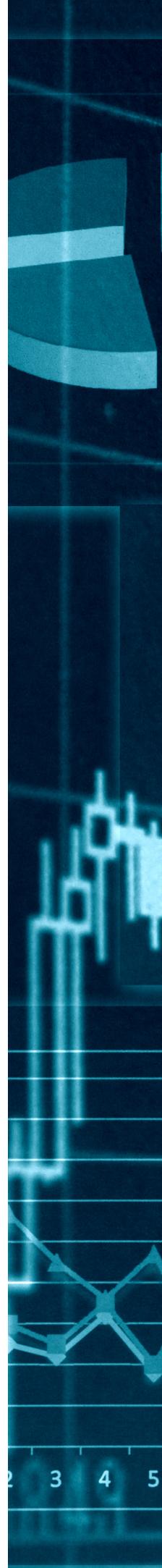
Some commentators have noted that speculative bets on such diverse assets such as Bitcoin and Tesla, are becoming extremely overvalued, resulting in the creation of an 'epic bubble'. In particular, technology stock valuations are climbing at a rapid rate with some analysts suggesting they are heading to dotcom levels. Unlike most, these stocks have benefitted from COVID-19 behavioural shifts and were among the first to rally back in March.

Analysts at Absolute Strategy Research produced a checklist of bubble indicators. Some of the most common features include low interest rates, stock valuations that tower over earnings, and rapid accelerations in equity gains. Some are attributing the potential bubble to the explosion of amateur investors on the back of lockdown boredom, whilst others feel that with interest rates remaining low, fund managers are feeling pressured to jump on the bandwagon for fear of 'missing out'.

Whatever the case, with no sign of central banks raising interest rates anytime soon and investors' expectations growing about rallying stocks, the jury remains out on the eventual outcome. There is a common theme of discussion between 'Stay at Home' type stocks that have been the beneficiaries of 2020 and the 'Reopening' stocks that will prosper once we return to normal. However, there are many companies that fit until the middle sector that are able deliver consistent returns throughout the uncertainty. At Reeves, we believe in the importance of choosing funds that are able to diversify their holdings. Also, we ensure our portfolios have sufficient diversification against larger market movements, not all funds will perform well in the same economic climate.

Source:

Financial Times (January 25th 2021) Investor anxiety mounts over prospect of stock market 'bubble'
<https://www.ft.com/content/a790c796-f0c4-4cf9-8c7a-3b52daff89e4>



6. Retail Investors Battle with Hedge Funds

In one of the most intriguing stories around investment markets, amateur traders using the 'Wallstreetbets' Reddit page have pushed up GameStop's stock price exponentially, in a move to inflict heavy losses on some high-profile hedge funds holding short positions on the stock. GameStop's price has now risen over 400% since Friday, totalling over 1900% rise Year to date.

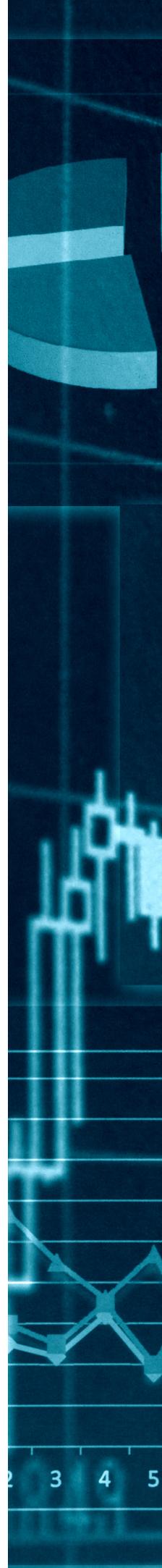
Relevance/Impact

Many of the hedge funds holding short positions were subject to a 'short squeeze', in which money is poured into a stock to drive up the price, if this happens then the short sellers incur losses and then need to cover their initial bets to avoid steeper losses. To pay for these losses, many funds sold off other share positions leading to a 2% downslide of Wall Street's main indexes.

Although the only significant effects have been felt by those holding short positions on the affected stocks, it does highlight the ever-increasing amount of amateur retail investors and lead many to ponder what effect this will have on markets in the longer term. The role of social media in this has also been questioned and the news has dominated a lot of the mainstream financial news stations.

Source:

BBC News (28th January, 2021) GameStop: Is buying frenzy starting to lose steam?
<https://www.bbc.co.uk/news/business-55837519>



Do you have a question for our Investment Team?

If you have any questions about our Portfolio Management Service or questions about your investments, please book a call with our Investment Service Team who will be happy to answer all your questions.

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