FACETOLOGY
10th November 2020

Covid-19 vaccine - Dash for trash

"Quality is remembered long after the price is forgotten" - Gucci family slogan

It's often been said that markets can only concentrate on one thing at a time. This was put to the test yesterday when investors were given a second reason to be cheerful in 24 hours.

There was plenty of green on the screens of City dealing rooms yesterday even before the announcement of a Covid-19 vaccine from Pfizer/BioNTech. Many investors working from home will also have seen their screens light up around 11:45am GMT and the UK stock market rise 5% in the space of half an hour.

A gain of that magnitude is exceptional on any day and was only possible by investors buying up the good quality large companies that make up the UK large cap stock index. But the real action is being found in smaller companies and those that have suffered the most from the Covid shut-down. Shares in the bombed-out transport and leisure sectors saw large gains. Restaurant and brewery stocks recorded double-digit gains and some stocks, such as Cineworld, doubled. Many companies to be found in these sectors carry large amounts of debt and have been the subject of speculation about their very future – and priced accordingly. At this end of the market, it was a classic "dash for trash".

This is an interesting episode in the unfolding drama of 2020 but what are the prospects for the rest of the box-set? The UK stock market rose 270 points yesterday, bringing it to 6,250, but it is still underwater by around 750 points year-to- date. The extent to which the rise is representative of the future prospects for any company is hard to gauge but must surely represent an increased likelihood that closed businesses may re-open. Beyond that, it seems premature to speculate about when company boards will start discussing a resumption of dividend payments – the bedrock of future valuations.

There is also the knotty problem of Brexit. The UK stock market may have the wind in its sails but it has lagged its global peers in its recovery from the March lows due to the dragging out of EU negotiations. However, a bit like the sudden announcement of a Covid vaccine, a UK/EU deal could be imminent. From a glass-half-full perspective, there is a real danger of being out of UK markets – particularly for the many foreign investors who threw in the towel in 2019. For them, a recovery in Sterling would be an added attraction.

In addition, we must not forget there is one underlying plot line which is acting as a tide that lifts all boats. That is the growing awareness that the big central banks stand ready and willing to provide additional stimulus. The Federal Reserve is clearly happy to let the dollar drift, following another quarter of a trillion dollars of debt since July, and the ECB is using the kind of accommodating language that bond markets could only have dreamed of before Covid-19.

It may be a little early to hang out the bunting on the back of a 2-day rally but it does look at though the point of maximum pessimism was reached over a week ago and that investors are seeing long-term opportunities that outweigh the risks.