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# Vaccinations

*"With infectious, without vaccines, there's no safety in numbers".  
Dr Seth Berkley, CEO of GAVI*



Source: Wikipedia

As I write this article I hope we are at the worst point in the Pandemic crisis. So far the UK has had 80,573 excess deaths in the last twelve months, which is an extraordinary figure in peacetime. The hardest hit sectors of our population have been the over eighties and people with underlying illnesses. The great hope is that the vaccination programme that began in December will help bring coronavirus under control. As of the 17<sup>th</sup> January 2021 4.5 million vaccines had been administered which amounts to 6.8% of the population. There may have been a number of mistakes made in the last twelve months but we do appear to be getting it right when it comes to vaccinating the population quickly.

We have a long tradition in the UK when it comes to discovering effective vaccines. In 1798 Dr Edward Jenner first published the results from his experiments with cowpox. This showed that inoculation with cowpox (vaccinia) gave protection against smallpox but it wasn't until the 20<sup>th</sup> Century that the vaccine became widely available. Smallpox was a killer and it is thought to date back to the 3<sup>rd</sup> century BC based on a smallpox-like rash found on three mummies in Egypt. There is no known cure or treatment for smallpox and the survival rate was around 30%. It is estimated that 300 million people died from smallpox in the 20<sup>th</sup> Century alone. The disease was especially dangerous for children with an 80% death rate for those infected.

In 1932 community vaccination began for the public in the UK. In 1980 the smallpox vaccination programme ceased and the disease was declared eradicated. There is no question that without a mass vaccination programme smallpox would still be killing thousands of people every year.

Vaccinations have brought many diseases under control such as Diphtheria, Polio, Tetanus and measles. In all cases it has been clear that death rates and infections from these diseases have been greatly reduced. It does take time though and cannot be 100% effective as humans don't all react to viruses or vaccines in the same way but the vast majority of people do benefit from vaccinations.

The coronavirus pandemic has proved to be far worse than we imagined in the early part of last year. The idea that we subsidised people to go out to restaurants and then sent students back to university in September now looks like a big mistake. Every time we thought that we had the virus under control it came back with a vengeance. The virus is now endemic around the world meaning we will not be able to eradicate it in the near future. We know that the virus mutates quickly and a number of new variants have proved to be far more infectious which has been reflected in the quick and massive rise in new infections and has translated into more patients in hospital and an increased mortality rate.

The NHS is close to being overwhelmed and the benefits from the current lockdown is still weeks away. The best hope we have is in the vaccination programme and we must be grateful and heartened that a number of vaccines have been found so quickly. Vaccinations have a proven track record and in the case of coronavirus it is surely our best chance of beating this awful disease which has tragically killed so many people already.

We wish you the very best for 2021 and thank all our medical and emergency services for their truly heroic efforts over the last year.

Richard Harper  
Head of Asset Allocation  
GHC Capital Markets Limited

In which **Tim Harris**, the Chair of our Asset Allocation Committee, describes the factors influencing our latest Asset Allocation decisions

<b>Global markets - A year of two halves</b>	As we enter 2021, it is evident that policymakers are still very engaged in supporting the global economy. Their support will help maintain global activity at a time when we still see the impact of the virus. However, the risk is that when we move into the second half, year-on-year growth will dip and markets may find few catalysts for renewed enthusiasm. When economic growth has recovered, we expect governments to back off from further meaningful fiscal stimulus, and most central bankers will not be able to ease policy for ever.
<b>Stay with equities.... For the moment</b>	Risk assets, most notably equities, can probably look forward to a good start to 2021. As the distribution of vaccines picks up in pace, economic growth should revert to something approaching normal, which will enable a sharp recovery in corporate profitability. Given the sharp recovery in corporate debt markets, many companies can buy back their stock or indulge in corporate activity such as mergers and acquisitions, all of which should add to global equity markets' vibrancy.
<b>Fixed income in the main still paying next to nothing.</b>	There is likely to be no let-up from central banks in 2021 regarding the maintenance near-zero interest rates. This is likely to anchor yields in the credit markets at or around the levels they have ended 2020. <b>In our view, government debt has almost stopped being a return asset and more an asset that provides risk diversification.</b> When times are good, yields are negligible. When times are bad yields can fall well into negative territory, providing the investor with capital gains to offset losses in their risk assets bucket.
<b>Increased allocations to Asian assets...</b>	We expect international investors to accelerate the diversification of the geographical exposure of their portfolios into Asia. As the year closed, experts predicted that China would be the world's largest economy by 2028. Yet, international investors probably have invested less than 5% of their assets in China's markets. The COVID19 crisis has laid bare the long-term challenges in developed economies, now worsened with a further build-up of government debt.
<b>...even if the trade war is not going away</b>	The Biden administration will be run by respectable folks, who have a grounding in expertise and diplomacy - a welcome change. That does not mean it will be looking to soften the hawkish stance the previous administration took materially. The tensions between the two superpowers will remain. Investors will have to learn to live with the occasional jarring headline, but also to trust that while the underlying rivalry is alive, the strategic case for Asia as an investment destination remains powerful.
<b>Gold has not lost its lustre.</b>	While the world may have found a vaccine for COVID19, it has not found a solution for many other issues that ail the global economy. Governments still use profound amounts of debt to buy their way out of their problems, while the world's major central banks are increasingly monetising the debt through quantitative easing. There is nothing sustainable in these actions of policymakers. Ongoing fears about monetary madness should support gold and silver, even if cryptocurrencies have an increasing number of fans.
<b>The world is still ill-prepared for the pending climate crisis.</b>	COVID19 showed us that despite warnings over decades about a pending pandemic crisis that the world preferred not to listen and only deal with the challenge when it was on the world's doorstep. Global warming may have garnered some respite from the COVID crisis; however, it has not stopped the world from warming. As the UN recently reported, 2020 is likely to turn out to be the third hottest on record, "We saw new extreme temperatures on land, sea and especially in the Arctic. Wildfires consumed vast areas in Australia, Siberia, the US West Coast and South America, sending plumes of smoke circumnavigating the globe" (source UN).
<b>Asset allocation to broaden for institutions and the masses</b>	With central banks likely to maintain interest rates at near-zero for some years to come, we expect institutional investors to turn more aggressively to alternative less-liquid assets classes. We subscribe to the growing view that well over 50% of institutional and family office wealth will be invested in private assets in the future. For the retail investor, the digitalisation and fractionalisation of previously illiquid assets such as real estate and private equity are likely to make them much more accessible even for less-wealthy individuals in the future.

In which **Tim Harris**, the Chair of our Asset Allocation Committee, describes the factors influencing our latest Asset Allocation decisions

### Our Hopes for 2021

#### In search of a Sustainable World

GDP growth is a poor measure of long-term economic success. The world needs sustainable development. We now see the consequences of government policies that supported growth by numbers but not quality. In search of 'great' GDP growth, governments cut back healthcare budgets, and research on vaccines was much reduced. Only at the last minute of the last hour, has medical research saved the global economy.

Climate change took something of a backseat in 2020 to the medical crisis; however, it remains ever-present, and a massive danger to the world. Even with people severely restricted in their global mobility, 2020 has turned out to be the second hottest on record. UN President Tedros recently remarked that "any efforts to improve human health are doomed" without fighting climate change. The good news is that more investors are voting with their assets for a more sustainable world. Indeed, PwC recently predicted that by 2025 60% of mutual fund assets will be ESG-compliant.

#### Policymaking needs to evolve from saving the next three months to planning for the next decade.

At this point, almost every part of the world is highly dependent on help from governments and central bankers to keep the growth going. However, a structural fall in global GDP growth was well underway well before COVID19 hit. For over a decade, the authorities have propped-up growth through tactical extremely low interest rates and continuous surges of government spending. Donald Trump's largesse with tax cuts was the worst of the bunch. However, at least in the past year whether you think it is right or wrong without the extraordinary policy measures, the global economy and markets would be in more significant trouble.

#### Better policymaking in 2021.

Governments will have to play a balancing act between keeping their economies going through the recovery from COVID and being a catalyst for creating better quality growth in the future. 'US-style' large payments to households buy time but do not prepare the households for what may be very different jobs markets in the future. Corporate tax cuts that are not in some way linked to encourage a corporate culture of sustainability achieve little in the long term.

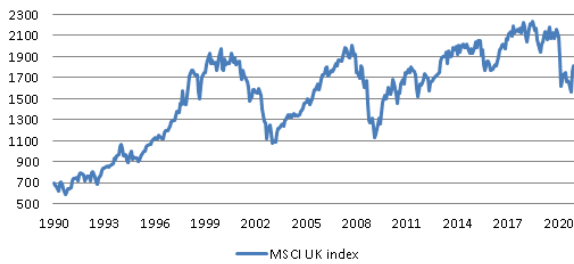
What have extremely low interest rates achieved but inflated asset prices and a massive increase in indebtedness at corporate and government levels? Analysis by Bloomberg shows that a quarter of the top US companies in the Russell 3000 index are not presently earning enough earnings to pay their interest expenses. Collectively, their debt has risen from US\$1.05 trillion before the pandemic to US\$1.98 trillion. These so-called zombie companies are soaking up a significant amount of US savings and are likely to achieve very little sustainable growth in the future. The list includes airlines, energy stocks and bricks and mortar retailers.

We are hopeful that President-elect Biden's slated policies on investing in infrastructure and encouraging policies that fight climate change will see the light of day. In China, the country's leadership has directed its economic strategy to sustainable growth through greener policies. Recent initiatives include an aim to reduce carbon dioxide emissions by 65% from the 2005 level. Ning Jizhe, deputy head of the National Development and Reform Commission recently said that China aims to reform and open-up, pushing forward green development and guaranteeing people's well-being.

#### Buy growth

We remain invested in assets that reflect near-to medium-term growth prospects. Technology, healthcare and robotics remain bedrocks of our portfolios and we have a good exposure to Asian assets to offsets the somnambulant recoveries of the UK and European economies. There will be further bumps and bruises on the road to recovery, but we look forward to a world when the most vulnerable are vaccinated against COVID risk and most economies can return to something of their former form.

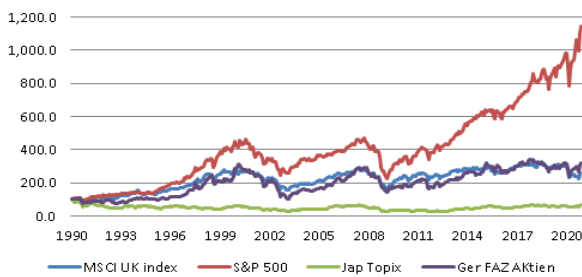
## UK Equities



Source: Lipper for Investment Management

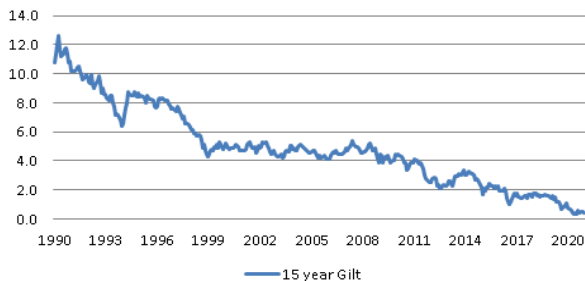
## World Equity Markets

Rebased Jan 1990=100



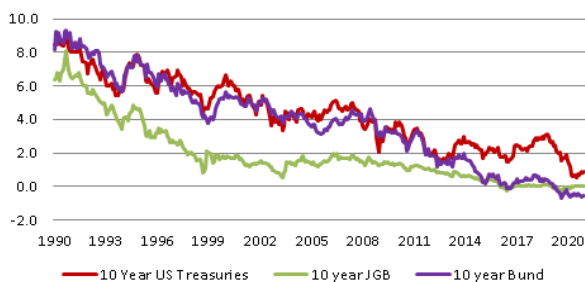
Source: Lipper for Investment Management

## UK Gilt Yields



Source: Lipper for Investment Management

## World Government Bond Yields



Source: Infront

While there are early signs of Brexit disruption to UK-EU trade and the new wave of COVID-19 cases in the UK does pose a downside risk, we expect UK equities will continue their rally in the New Year. With a Brexit trade deal agreed, the boost to foreign earnings in sterling terms from a fall in the pound would prevent a big fall in the FTSE 100, as it did in the aftermath of the EU referendum. Last year's FTSE 100 underperformance against US and emerging markets in part reflects the high weight within the index of sectors hit hardest by the pandemic: e.g. Energy, Banks and Retail. The latest rally in equities is looking through the inevitable economic disruption of the current lockdown to a time when the virus is controlled and corporate UK can return to a more normal modus operandi.



We expect equities to make gains, as the global economy recovers from the effects of the pandemic, even if only gradually. We suspect that equities in Asia will be the best performers over the next 12-18 months. The recovery in risk appetite and the fall in US interest rates relative to those elsewhere will weigh on the US dollar, although uncertainty about the post-virus outlook and the risk of a re-escalation of US-China tensions may keep the dollar from falling much further in the near term. Crucially, our forecasts rest on the assumption that the major economies manage the coronavirus pandemic without slamming the brakes on activity again beyond this year.



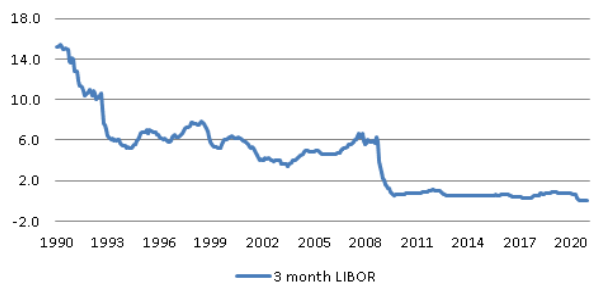
Extremely low official interest rates and more quantitative easing will keep gilt yields anchored close to their record lows over the next few years. 10-year nominal gilt yields have risen to their highest level since March, widening the gap between 5-year and 30-year borrowing costs to a two-year peak. There is some talk of negative interest rates, but we believe that the Bank of England is unlikely to reduce the Bank Rate below zero. Even though the Bank is now buying fewer gilts per week than are being issued, we think that a likely further £250 billion expansion of QE to fund government expenditure and continued rock bottom interest rates will keep gilt yields low for many years.



Government bond yields in the US, Germany, and Japan remain at rock bottom levels across respective curves, as central banks continue to keep rates low and to purchase large amounts of bonds. Bond yields in the euro-zone "periphery" have also declined sharply, as EU governments agree debt-funded fiscal stimulus. We believe that monetary policy will remain extremely loose and that yields will remain very low or even fall further from now to end-2021. The yields of investment-grade corporate bonds in the Euro Area, the UK and the US have also declined, as a recovery in risky assets and direct purchases by central banks have put downward pressure on credit spreads. As economies reopen, there is more scope for spreads of high-yield bonds to fall than those of investment-grade bonds.



### UK Short term Interest Rates



Source: Lipper for Investment Management

Markets have priced in a chance of negative interest rates. That has left UK rate expectations between those in the Euro Area, where the policy rate is already negative, and those in the US, where the Fed has ruled out negative rates. Meanwhile, more quantitative easing is likely to be on the way. LIBOR interest rates may edge up over the coming months, as markets tone down their expectations of negative policy interest rates. But we expect LIBOR rates to remain close to their historic lows for many years, as we doubt the Bank Rate will be raised above the current rate of 0.10%. Low market rates have little to do with perceptions of risk, as LIBOR spreads have been stable. Spreads in the UK are just as low as in the Euro Area, but are lower than in the US.



### Spot Crude Oil Price

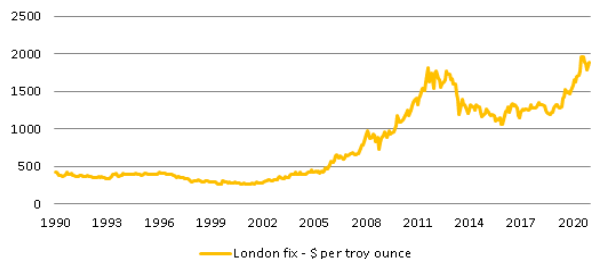


Source: Lipper for Investment Management

The spot Brent crude price continues a steady recovery from pandemic lows to reach the mid \$50s per barrel. OPEC's oil production has risen into the winter heating season. If concerns persist about the recovery in global oil demand, then we suspect that OPEC may decide to extend its previous production cuts. Even assuming full compliance, the market remains oversupplied. That said, US production has fallen sharply, given a high production cost base. In the coming months, we expect the oil market to be factoring in stronger demand in 2021, thus justifying a price level around \$50 per barrel.



### Gold Bullion Price



Source: Lipper for Investment Management

The prices of all the precious metals, including gold, have plateaued since the autumn. Gold price has now retreated by 10% from its all-time high. Prices had been supported by a weaker US dollar and falling real yields, both of which we expect to continue to prevail. We expect the Federal Reserve's adoption of average inflation targeting to lead to even lower real bond yields, supporting the prices of gold and other precious metals in the medium-term. In contrast, the physical market for gold remains weak. Despite a rebound in India's gold imports, China's gold imports are very weak. We don't expect physical demand to recover to pre-virus levels for some time.



Note that where an MSCI Index has been used for illustration. This has been sourced with permission from MSCI Inc.

## Quick facts

ISA Allowance 2020/2021	Stocks & Shares ISA	£20,000
	Cash ISA	£20,000
	Junior ISA	£9,000
Pension Allowance 2020/2021	The limit is the greater of £3,600 and 100% of salary, subject to the annual allowance of £40,000 (unless money has been accessed through flexi drawdown in which case the	

## Tax facts

Income Tax	Personal Allowance 2020/2021	Up to £12,500
	Basic Rate @ 20%	£12,501 to £50,000
	Higher Rate @ 40%	£50,001 to £150,000
	Additional Rate @ 45%	Over £150,000
	Married couple's allowance: Older spouse born before 6 April 1935	£8,445
Capital Gains Tax	Annual Exemption - Individuals	£12,300
	Basic Rate tax band (residential property)	18%
	Basic Rate tax band (other assets)	10%
	Higher Rate tax band (residential property)	28%
	Higher Rate tax band (other assets)	20%
	Business Asset Disposal Relief	10%
	Business Asset Disposal Relief lifetime limit of gains	£1,000,000
Inheritance Tax	Threshold up to £325,000	Nil
	Over £325,000	40%
Corporation Tax		19%
	Full Rate	19%



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