

(Vaccine) Trials and Tribulations

Yesterday an understandable sense of euphoria swept equity markets only a week after most of Europe was plunged into a second lock-down. Positive vaccine developments and the near certainty of a Democrat in the White House resulted in the best daily stock market performance since March. Sectors that had been effectively written off in the new COVID world roared back to life; travel related companies such as airlines, cruise ship operators, aeroplane engine manufactures, even cinema groups rallied over 30%! Simultaneously companies that have been the biggest beneficiaries of the pandemic lost some of their lustre as investors rotated into bombed-out old-world sectors. It is quite a reversal on the recent trend when we watch the Dow Industrial Index post a near 3% gain, whilst the tech-heavy Nasdaq Composite Index retreats 1.5%. The UK equity market rose nearly 5% during the day.

Are we actually heading back to the future or simply grasping for the first lifebuoy thrown our way? The global effort to develop a vaccine has been unprecedented and there is no doubt that a vaccine will become available allowing the world to return to normal; but it will not be a quick or straightforward journey. The Pfizer/BioNTech announcement should be celebrated but we must question whether or not a vaccine that has to be kept at sub-zero temperatures in purpose-built containers will ever become a

practical solution for global distribution? Or do the results of the initial trials actually confirm a 90% efficacy, higher than the current flu vaccine which has been years in development, or indeed many of the vaccines we are familiar with already? There are many questions to be answered and obstacles to overcome so it is overoptimistic to believe we have found the silver bullet to protect us from this deadly disease but it does show us, that at some point in the future, life will return to normal.

We cannot ignore the US elections. Despite President Trump's rhetoric to the contrary, financial markets welcomed a decisive winner with a Democrat poised to take the helm of the country most ravaged by the coronavirus. The vaccine news came at the perfect time to boost that underlying positive sentiment. It is hoped that Biden will be less critical of the Federal Reserve and more supportive of their 'lower for longer' stance reinforcing our belief that they, and most central banks, will remain accommodative well into 2021. This will undoubtably underpin equity markets, to which we remain fully committed, and keep bond yields, particularly for government debt, at depressed levels and less attractive than corporate debt on a relative basis. We still retain our alternative hedges (including exposure to precious metal) against additional stimulus and inflationary effects which despite struggling in the face of such buoyant equity markets, will in the long term continue to provide solid gains. Drilling down into our equity allocations we have introduced more value-orientated exposure to our portfolios as we start to reduce the growth bias that has served us so well this year. Cash levels across our portfolios are now normalised given the opportunities we see.

It would be naive to believe we are in the home straight in our fight against this pandemic. It is more likely that infections, lockdowns and the economic destruction caused will get worse before they get better. There are already alarm bells that the new vaccine-hope will make it harder to pass bills for further desperately needed stimulus packages in the US, which may prove a double-edged sword for markets. These ongoing trials and tribulations forge our more conservative and diversified positioning but we can, and should, look forward to a time when the world does return to normal and seek to benefit from the opportunities this will bring along the way.

If you would like to discuss our portfolios or current positioning further please do not hesitate to contact us.

This document is not intended in isolation as an offer or solicitation or recommendation to use or invest in any of the services or products mentioned herein. Investors should be aware that the value of the portfolio and the income from it can go down as well as up so you may get back less than you invested. Past performance is not necessarily a guide to future returns. The value of investments denominated in foreign currency may fall as a result of exchange rate movements. The investments and services referred to in this document may not be suitable for all investors and, if in doubt, you should seek qualified independent financial advice. Any opinions, expectations and projections within this note are those of TAM Asset Management International Limited, represent only one possible outcome and do not constitute investment advice.

TAM Asset Management International Limited is regulated by the Financial Services Commission of Mauritius and is an authorised Financial Services Provider regulated by the South African Financial Service Conduct Authority.