Handelsbanken
Asset Management

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Weekly Bulletin: New year, new EU

Key takeaways

2021 began amid a newly minted UK-EU deal, finally securing a future trading relationship between the UK and its nearest neighbours. For many, the new year also begins with tighter restrictions, growing unease surrounding a new COVID-19 variant, and a return to the unlooked-for privilege of home schooling.

- Since our last Weekly Bulletin, the UK has agreed a new trade deal with the EU, following four years of negotiations. The deal, which was agreed on Christmas Eve, removes the near-term risks of the UK leaving the Brexit transition period without a new trading arrangement in place. Sterling rallied on the news.
- This brand new UK-EU agreement represents the first modern day trade deal to actively disintegrate a trading partnership – erecting and defining barriers between markets rather than removing them. The accord allows most goods to be traded between the EU and UK without facing new tariffs or quotas, though the picture for the services sector is less clear.
- Turning (inevitably) to the latest virus news, 20 million people entered the new year under 'tier 4' restrictions in England. Newly admitted areas included the Midlands, the North East, North West and parts of the South West. Over the weekend, the UK prime minister warned that these restrictions could be set to tighten further, as concerns grow about the transmission rates of a new COVID-19 variant. The return to school has already been delayed for many, and teaching unions (amongst others) are calling for re-closures.
- In mainland Europe, France has tightened its curfew restrictions in a number of regions, and Germany also looks to be on the brink of extending its current lockdown conditions.
- In welcome happier news, the UK's medical regulator approved the Oxford/AstraZeneca vaccine last Wednesday. This vaccine has substantial advantages over its peers based on the ease with which it can be shipped and stored, as well as its inexpensive price. What's more, fortunately, there is no evidence to suggest that the current suite of available vaccines will be hampered by the emergence of COVID-19's new variant.

Weekly market moves

In the final days of 2020, global stock markets delivered broadly flat performance, as the effects of fresh US economic stimulus and Brexit news flowed into the financial system.

Emerging market shares enjoyed a late surge, but still ended the year behind the world's leading stock market for 2020: the US.

UK shares fell in the last week of the year, while (in keeping with this risk-averse tone) UK bond prices rose.

What to look out for this week

As leaders struggle to contain the next wave of the global pandemic, populations across Europe will be watching closely for any signs of tightening restrictions in their home regions.

In the US, 'run off' elections in Georgia will determine who controls the Senate (upper house of Congress) over the coming two years; Democrats would need to win both seats in order for President-elect Biden to gain control.

Market moves (as at 31 December 2020)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,809.9	-0.7%	3.0%	-13.2%
MSCI United Kingdom Mid Cap	1,249.9	-0.3%	4.9%	-3.6%
MSCI United Kingdom Small Cap	426.2	-0.4%	7.1%	-4.8%
MSCI World (GBP)	2,009.9	0.2%	1.8%	12.9%
S&P 500 (GBP)	3,756.1	0.5%	1.4%	14.7%
MSCI Japan (GBP)	1,103.8	1.4%	1.7%	11.4%
MSCI Europe ex-UK (GBP)	1,433.2	0.4%	2.1%	8.2%
MSCI Pacific ex-Japan (GBP)	1,609.1	-0.1%	2.8%	3.4%
MSCI Emerging Markets (GBP)	71,692.9	2.2%	4.9%	15.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,425.0	1.0%	1.7%	8.8%
BoA Merrill Lynch Index-Linked Gilts	629.7	1.3%	0.5%	11.3%
BoA Merrill Lynch £ Corporate	482.4	0.8%	1.7%	8.7%
Commodities				
Oil (West Texas Intermediate, GBP)	$48.5	-0.3%	4.8%	-23.1%
Gold (GBP)	$1887.6	-0.3%	4.6%	20.8%
S&P / GSCI (GBP)	1,977.0	0.2%	3.5%	-26.1%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

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