Weekly Market Summary

November 20th, 2020

When Breakthrough Vaccine Proclamations Fail to Excite Markets!
Fadi Nasser - Deputy Chief Investment & Treasury Officer

Latest Update on Coronavirus: Confirmed cases last at 57.38 million, with the death toll from the pandemic at 1,368,510. Pfizer Inc. and BioNTech plan to file for an emergency use authorization today that could allow their Covid-19 vaccine to be used in the US by December. Madrid will shut its border for traffic for 10 days in December, whilst Singapore tightens border measures for travelers who have been to Malaysia or Japan. The World Health Organization (WHO) has recommended against the use of Gilead Sciences Inc.'s Remdesivir to treat hospitalized Covid-19 patients less than a month after US regulators granted the drug a speedy approval (?!)

Last week's announcement by Pfizer, and its partner BioNTech, that its coronavirus vaccine has a 90% effectiveness (amended to 95% this week, try beating that!😊) had triggered a sharp rally in equity markets and resulted in the so-called "*rotation trade*". The latter refers to investors' move away from technology stocks (those benefiting from further restrictions) and into cyclical equities as markets start pricing the global economy's emergence from current lockdowns with the availability of one or more efficient Covid-19 vaccine – ultimately putting the pandemic behind us. Nonetheless, as previously noted, that is a very simplistic approach to a crisis still looming. After all, questions about production, distribution and most importantly the performance and capability of the shots themselves still need to be answered, even if the initial readings look highly promising according to vaccine specialists. In Pfizer's case, trials started less than four months ago, and how long the vaccine will confer protection and how many will benefit remain almost complete unknows for now (earlier this year, the US FDA said it would only consider approving vaccines that "*prevent disease or decrease its severity in at least 50% of people who are vaccinated*", although temporary authorizations may be considered on a "*case-by-case basis*." Oops, the bar seems too low for a new approach to medicine using mRNA technology! ☹)

At the same time, most of Europe remains in some sort of lockdown and governments are fighting not just the recent surge in case numbers and hospital admissions, but also mounting resistance against the renewed restrictions whilst the clock mercilessly ticks towards the end of the Brexit transition period with no viable solutions in sight. Lately, the IMF and the Group of 20 have warned that the recovery from this year's recession is at risk and could be derailed as the resurgence of Covid-19 forces fresh restrictions on households and companies. The International Monetary Fund (IMF), whilst noting progress on a vaccine, has pointed out at elevated asset prices as a disconnect from the real economy and a potential threat to financial stability. "*The recovery is uneven, highly uncertain and subject to elevated downside risks, including those arising from renewed virus outbreaks in some economies*," the G-20 added, ahead of a virtual summit this weekend hosted by Saudi Arabia.

Getting the stock market right in 2020 has been extremely tricky, requiring individual investors and fund managers to forget about almost everything that made 2020 a year to remember! A deadly virus spreading unabated globally, followed by a brutal recession and plunge in profits as well as widespread civil unrest in the US. Add to that persisting political uncertainties surrounding the latest US presidential election and equity valuations that haven't been this rich since the dot-com bubble days. Yet, none of that did matter, at least not for too long, to a market that seemed to see through the fog of uncertainty and focus on a recovery in 2021. The final chapter on this strange year has yet to be written (it ain't over till the fat lady sings! 😊), and markets have a reputation for surprising when the consensus least expects it. But, at least early in the week, promising test results for a coronavirus vaccine by Moderna - which announced that its mRNA

Covid-19 vaccine was 94.5% effective in a preliminary analysis - rewarded investors who kept the faith (and surely many others that had insider knowledge). The S&P 500 closed at a record high on Monday, at 3626.91, after a second straight weekly gain but has since retreated (last at 3,581).

Still, the more subdued and balanced market reaction to the even more impressive Moderna announcement, exactly one week after the Pfizer news (both out at 2:45 pm Bahrain time, a simple coincidence?!) suggests that investors are waking up to the more immediate healthcare crisis and consistently upsetting virus headlines which a vaccine won't and can't ameliorate for the remainder for 2020 (a good way to see this is through the Carnival Corp. cruise stock price, which closed more than 38% higher on the day of the Pfizer announcement, but has since lingered below that despite the added bonus of the Moderna news!). A sense of risk-off seems to have spilled in past days as market players can no longer ignore the gravity of the recent surge in the pandemic, with health systems once again overwhelmed.

Of course, stocks remain on a strong upward trajectory ever since their big March drop/lows. This has led Peter Schiff - an American stock broker, financial commentator and CEO of Euro Pacific Capital - to raise a poignant question during a recent podcast: If Covid-19 didn't hurt the stock market, why should a vaccine help? "*I know that if we get a COVID vaccine, then more people can go back to work. More people will feel comfortable traveling and doing all sorts of things that they used to do pre-COVID that they are no longer doing. So, all of that is good news, except none of the bad news was ever priced into the stock market. The stock market is not way down because of COVID. It's at record highs*!" Peter adds that the only thing that makes sense to him is that traders know it doesn't really matter what happens to COVID. They understand that it is the central banks' stimulus that has kept the market blown up over the last several months when it should have logically sold off due to the economic devastation of the pandemic. "*Traders recognize that even of COVID goes away, the cheap central bank money is here to stay. Because if traders believed that the end of COVID also meant the end of zero percent interest rates and quantitative easing, stock would not be rallying on a COVID vaccine. They would be getting killed!"* Federal Reserve Chairman Jerome Powell spoke on Tuesday and stressed that the central bank cannot end emergency measures too soon, whilst again calling on Congress to pass additional fiscal stimulus. "*The reason he is saying this is because he knows there is no turning back. And I think the markets know we've sold our monetary souls to the devil and there is no getting out of this deal*," Mr. Schiff concludes.

Talking about the devil, media outlets have been very busy over the past 48 hours following on an urgent request by the Vatican to Instagram after Pope Francis' official account liked a photo of a Brazilian bikini model. It is not clear when the photo of model Natalia Garibotto was "*liked*" by the Pope's account, though the "*like*" was visible on November 13th, according to the Catholic news Agency. The photo was "*unliked*" a day later! In the interim, miss Natalia has cheekily declared she was "*going to heaven*" after the "*blessing from the Holy See*" (the world can't get crazier than that .. can it ?!😊)

Disclaimer

It is important that you only use this report if you are the intended recipient of this report and you have satisfied yourself that you are eligible to receive such information. This report is provided to you because you are one of our esteemed customers and have previously shown interest in receiving the type of information contained in this report.

The Treasury and Investment Management department of Gulf International Bank B.S.C. ("GIB") have compiled the information in this report. GIB is incorporated in the Kingdom of Bahrain and is licensed by the Central Bank of Bahrain (the "CBB") as a conventional wholesale bank. GIB's head office is located at Al-Dowali Building, P.O. Box 1017, 3 Palace Avenue, Manama, Kingdom of Bahrain.

This report is intended for the accredited investors, as defined in the Investment Business Code of Conduct published by the CBB. This information has not been reviewed by the CBB or any other regulatory authority in any jurisdiction and neither CBB nor any other regulatory takes any responsibility for the correctness or accuracy for the information contained in this report.

The information contained herein is not directed at or intended for use by any person resident or located in any jurisdiction where (1) the distribution of such information is contrary to the laws of such jurisdiction or (2) such distribution is prohibited without obtaining the necessary licenses or authorizations by the relevant branch, subsidiary or affiliate office of GIB and such licenses or authorizations have not been obtained. The recipient of such information is responsible for ensuring that this information has not been received by it in breach of laws and regulations of any jurisdiction.

This report contains publicly available information only, which has only been complied by GIB. The information provided herein is on "as is" and "as available" basis and without representation or warranty of any kind. GIB hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall GIB or its subsidiaries, affiliates, shareholders or their directors, officers, employees, independent contractors, agents and representatives (collectively, "GIB Representatives") be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting there from, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of information or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of GIB or any GIB Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. The information here is, and must be construed solely as, compilation of information (unless expressly stated otherwise) and not statements of fact as to credit worthiness or recommendations or opinions of GIB.

This report does not provide individually tailored investment advice. Any materials contained herein have no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. The document is provided for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. GIB makes every effort to use reliable, comprehensive information, but we do not represent that it is accurate or complete. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the materials, nor are they a complete statement of the securities, markets or developments referred to herein. Recipients should not regard the materials as a substitute for the exercise of their own judgement. Any opinions are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GIB as a result of using different assumptions and criteria. GIB is not under any obligation to update or keep current the information contained herein.

The value of, and income from, your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised.

The information contained in this report is just for informational purposes. Information does not constitute a solicitation, an offer, or a recommendation to buy or sell any investment instruments, to effect any transactions, or to conclude any legal act of any kind whatsoever. GIB does not intend to provide investment, legal or tax advice through this report and does not represent that any securities or services discussed are suitable for any investor. When making a decision about your investments and business, you should seek the advice of professional advisors.

The report may contain statements that constitute "forward looking statements". While these forward looking statements may represent GIB's judgment and future expectations, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from GIB's expectations. GIB is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise. The historical information is provided for information purposes only. Performance figures are calculated before tax (if any) and after deducting ongoing fees and expenses. The performance figures are historical and past performance is not necessarily an indication of future results. Certain amounts (including %ages) included in this document may have been subject to rounding adjustments. Accordingly, figures may not be an exact arithmetic aggregation of the figures to which they relate. The values and forecasts shown represent our current indicative valuations and forecasts of the relevant transactions, currencies, interest rates, commodities or securities as at the date shown. Any value or forecast shown herein is not an indicative price quotation. We expressly disclaim any responsibility for the accuracy of the values or forecasts shown, any errors or omissions in the report

With the exception of information regarding GIB and save as otherwise specifically indicated, the information set out in this report is based on public information. We have, where possible, indicated the primary source of information. We strongly recommend the recipients consult the primary source of information. Facts and views in this report have not been reviewed by, and may not reflect information known to, professionals in other GIB business areas.

This Report, and the information contained herein (save to the extent that such information is publicly available) is confidential and may not be disclosed by you to any other person outside of your organization without our consent.