

Weekly Market Summary

January 22nd, 2021

It's All About Covid-19 Vaccine Rollout & Biden Administration's Generosity!

Fadi Nasser - Deputy Chief Investment & Treasury Officer

Latest Update on Coronavirus: Confirmed cases last at 98.174 million, with the death toll from the pandemic at 2,102,453. European nations continue to grapple with delays to their coronavirus vaccination programs, with Italy warning of a significant slowdown in the coming week and Germany expecting vaccine shortages to last another six to eight weeks. The WHO said it sees no evidence that Pfizer Inc. and BioNTech SSE's Covid-19 vaccine contributed to the death of elderly people and urged that the shot still be used. UK Prime Minister Boris Johnson and Home Secretary Priti Patel haven't repeated previous assurances that the UK will be getting to normal by April, raising concerns that the third UK lockdown could last into summer.

This week was all about the need to rollout the Covid-19 vaccine in a swift and unbiased manner. On Monday, the head of the World Health Organization (WHO) noted that the equitable distribution of coronavirus vaccines is at "*serious risk*". Warning of a "*catastrophic moral failure*," WHO's Director-General Tedros Adhanom Ghebreyesus said "*the recent emergence of rapidly-spreading variants makes the rapid and equitable rollout of vaccines all the more important*." But he also added that this distribution could easily become "*another brick in the wall for inequality between the world's haves and have-nots*." The WHO had previously called on wealthier countries that had pre-ordered millions of doses of coronavirus vaccines, such as the US, UK and Europe, to share a portion of those vaccines with COVAX (a global scheme co-led by an international vaccine alliance called Gavi to ensure equitable vaccine for every country in the world).

So far, more than 56.7 million doses in 52 countries have been administered, according to data collected by Bloomberg (UAE and Bahrain coming 2nd and 3rd for the number of doses administered per 100 people!) The latest rate has been roughly 2.85 million doses a day on average. Vaccinations in the US began December 14th with health care workers, and so far 18.4 million shots have been given according to a state-by-state tally by the Centers for Disease Control and Prevention. This rollout has fallen short of federal projections as vaccinations proceeded unevenly across the states, prompting newly sworn in US President Joe R. Biden Jr. to promise "*war-time*" efforts against coronavirus as he announced a series of new policies and vowed to be led by "*science not politics*". In an address to the nation on his first full day as US president, Mr. Biden said that "*we're in a national emergency and its time we treated it like one*." He later unveiled added travel/quarantine requirements and a new national strategy for rolling out the vaccines as his top coronavirus adviser expressed shock at how poor the plan was inherited from Donald Trump's team. Biden also urged Americans to wear face masks for the next 99 days, calling it a "*patriotic*" act and saying 50,000 lives could be saved by April if his plea is followed. There was also a recommitment of the target to get 100 million vaccine doses into arms in his first 100 days as President.

In his latest update on financial markets, John Authers (currently a senior Bloomberg editor for markets after spending 29 years with the FT as head of the Lex Column and chief markets commentator) suggested that President Biden has a clear task that people of all political persuasions can support, and which could boost the economy and markets in the US and the rest of the world: He has to distribute the vaccines as swiftly and fairly as possible! Succeed, and all kinds of vistas of possibility (new & bright opportunities) open up before him. Fail, and he could be a lame duck within months!

So far, despite Covid19-related deaths reaching a new and alarming peak in past weeks, market sentiment has held up strongly – cheered by persisting fiscal and monetary stimulus, as well as dovish central bank talk. As a result, equity markets continue posting record highs (the S&P500 and Nasdaq closing at record highs yesterday, up 2.58% and 4.99% respectively for the first 3 weeks of 2021!), whilst the world's commodities markets witness further advances with traders buying buoyed by expectations that fiscal aid will expand further under President Joe Biden at a time Fed Chairman Jerome Powell pushes against any notion of premature bond tapering.

Below is a coverage of the main stories that have shaped markets throughout the week:

Meet Joe Biden's Pick for Treasury Secretary: Janet Yellen, a former Federal Reserve Chair and President Biden's pick for Treasury Secretary, told the Senate Finance Committee in testimony Tuesday that an enduring era of low interest rates supports the government's fiscal stimulus measures, while playing down concerns about the debt it creates. "*The world has changed,*" Yellen said with regards to interest rates. "*In a very low interest-rate environment like we're in, what we are seeing is that even though the amount of debt relative to the economy has gone up, the interest burden hasn't.*" (Do a ballooning Fed's balance sheet / weakening US Dollar ring any bells? 😊) Her argument made no immediate headway with Republicans on the panel. "*Although we do have relatively low rates today and knowing that this could change, we shouldn't get too comfortable,*" said Ohio Senator Rob Portman. He described the debt-to-gross domestic product ratio (north of 100% currently) as "*frightening.*" As a reminder, a similarly confident Jane Yellen noted back in 2010 the following in front of a Financial Crisis Inquiry Commission into the 2008 financial meltdown: "*For my own part, I did not see and did not appreciate what the risks were with securitization, the credit ratings agencies, the shadow banking system, the SIV's — I didn't see any of that coming until it happened ...I guess I thought that similar to the collapse of the stock market around the tech bubble, that most likely the economy could withstand [the housing collapse] and the Fed could move to support the economy the way it had after the tech bubble collapsed*". Her startled interviewers noted that almost none of the officials who testified had offered a similar acknowledgment of an almost universal failure.

ECB Holds Interest Rates & Keep Stimulus Steady: The European Central Bank (ECB) kept its stance unchanged at its policy meeting on Thursday, saying it would continue to buy up to EUR 1.85 trillion (till infinity & beyond 😊) of Eurozone bonds through March 2022 under a plan unveiled last December. It left its key interest rate unchanged at -0.50%. ECB President Christine Lagarde sounded a cautiously optimistic note on Europe's economic recovery despite renewed lockdowns, highlighting recent positive developments such as the start of a Covid-19 vaccination campaign in Europe, a trade deal between the EU and the UK and a new administration in the US.

IEA Cuts Oil Demand Forecasts: The International Energy Agency (IEA) lowered forecasts for global oil demand as renewed lockdowns to contain the pandemic temper the recovery expected this year. "*The global vaccine rollout is putting fundamentals on a stronger trajectory for the year, with both supply and demand shifting back into growth,*" the agency said in a monthly report. "*But it will take more time for oil demand to recover fully as renewed lockdowns in a number of countries weigh on fuel sales.*" The IEA cut its consumption estimate for this quarter by 600,000 barrels a day, projecting a slight decline from the end of last year. Still, the world's swollen oil inventories stand to abate by 100 million barrels in the three-month period as Saudi Arabia and other OPEC+ nations continue curbing supplies. March WTI and Brent oil futures were last trading at \$51.80 and \$ 54.75 respectively.

Grim EU, UK Leaders Warn of Tougher Lockdowns: European and UK leaders painted a bleak picture of the healthcare emergency across the continent, warning that mutant strains of the coronavirus will keep the continent in longer and potentially stricter lockdowns with no clear sense of when the restrictions will be lifted. Governments across the EU are grappling with rising numbers of infections and deaths, and leaders have renewed pleas for citizens to avoid non-

essential travel both within and across the bloc's borders. In the UK, the third coronavirus lockdown looks set to endure as the government warned it is too early to contemplate easing restrictions despite the mass vaccination program continuing to expand to reach 5 million people. This morning, the composite Purchasing Managers Index (PMI) survey reading for the Euro area suggests the economic pain of lockdowns is intensifying and could possibly lead to Q1 contraction. The headline number fell to 47.50 in January from 49.1 in December, signalling a fall in GDP at the start of 2021.

Bitcoin Drops Below \$30,000 After a Slump that Rattled Crypto Boom: Bitcoin slipped briefly below \$30,000 this morning (last at \$31,300), in a retreat that stoked fresh questions about the sustainability of the cryptocurrency boom. The largest cryptocurrency is on course for one of its worst weeks since the pandemic roiled financial markets in March last year. Analysts have cautioned that a sustained drop below \$30,000 - following a recent jump to a high of \$41,981 - could presage further losses. For its part, UBS Global Wealth Management recently warned that there is nothing stopping a wipe-out in big-name digital currencies eventually amid regulatory threats (in her confirmation, Janet Yellen noted cryptocurrency as an area of concern for terrorist and criminal financing) and central bank-issued competitors.

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 compiled 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.

GIB retains all right, title and interest (including copyrights, trademarks, patents, as well as any other intellectual property or other right) in all information and content (including all text, data, graphics and logos) in this document. All recipients must not, without limitation, modify, copy, transmit, distribute, display, perform, reproduce, publish, license, frame, create derivative works

from, transfer or otherwise use in any other way for commercial or public purposes in whole or in part any information, text, graphics, images from this document (excluding publicly available information) without the prior written permission of GIB.