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The Trades



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Vaccine breakthrough: towards a new cycle?

by Cranley Macfarlane

Markets moved on quickly from the US presidential election, even with the result not yet being official. Despite Biden's apparent victory, the Democrats' failure to win a majority in the Senate has meant the timing and size of any fiscal support is less certain. Europe, as ever, faces its own difficulties with Hungary and Poland threatening to veto the EU's own virus support package, while UK-EU trade negotiations grind on past yet another deadline, defying the deadness of even Monty Python's parrot.

While our politicians continue to grapple with the crisis, it was the turn of the scientists to offer some much-needed good news. The announcement of a series of successful vaccines by Pfizer/BioNtech, then Moderna and Britain's Oxford University-Astrazeneca collaboration caused some eye-watering moves in the share prices of companies

hit hardest by the pandemic. Airlines, for example, have suffered existential blows to their business models. EasyJet has raised cash from shareholders, cut jobs, and sold and leased back part of its fleet to try to survive until passengers return. I am one such passenger if these vaccines mean travel restrictions are lifted. Having taken just one flight in 2020, I may double or triple the flights I take in the year ahead, not to mention all those savings-rich households starved of their holidays during lockdown. EasyJet's shares have risen over 60% month to date in anticipation.

However, the market reaction was not all one-way. For the 'stay-at-home' winners of lockdown, such as technology and consumer staples stocks, vaccine progress means demand may drop next year. Even if my wife and I keep up our obsessive levels of cleanliness in the house, I doubt we can increase the amount of disinfectant we buy next year. Reckitt Benckiser, manufacturer of Dettol, will likely struggle to achieve anywhere near the levels of revenue growth it had this year;

their shares have fallen 9% so far this month.

Recently we have been positioning the Endeavour Fund for such a moment, taking profits from the likes of Reckitt Benckiser, Pepsico, Roche and Nestle, and initiating or reinstating positions in more cyclically sensitive stocks such as EasyJet (exited 2018), Ryanair and adding to Whitbread (the owner of Premier Inn) where we had confidence in the strength of their balance sheets. While the share price moves in recent trading days have been impressive, we are nonetheless cautious that vaccine progress does not mean an immediate end to the current season of the crisis. Nevertheless, they enable us to look with greater confidence past the present, to an end to the pandemic and a re-opening of the economy; and that really is good news, both from an investment perspective, and a personal one.