

New Covid Variant – Initial Market Reaction

The news overnight regarding a new potentially more transmissible Covid variant is clearly a very unwelcome development and stock markets this morning are clear in their reflection of this. US markets are closed for thanksgiving and so have not yet reacted, but Asian, European and UK equity markets have all opened down by significant amounts. At the time of writing both the FTSE 100 and the Euro Stoxx 600 (a broad European index) have fallen by around 3%. Cyclical companies are being particularly hard hit, with IAG (British Airways' parent company) down 11% at the time of writing, while BP is down over 6%. Such large moves show the level of concern this announcement has created. Bond markets are also reflecting this with yields falling (reflecting rising prices). The UK 10 Year Gilt is now trading at 0.85%, whereas yesterday it was 0.96%.

Uncertainty is now the name of the game as it is likely to take at least a few weeks before the extent of the threat around this new variant becomes apparent. While travel restrictions from the affected countries have already been put in place, whether further restrictions on daily life will be required is yet to be seen. Early indications suggest that this variant may be able to evade vaccinations to a greater extent than in other variants we have seen, but given that the UK is now well into its booster programme of 3rd jabs, it appears likely that we will continue to have a reasonable defence, even if it is reduced.

In the absence of clarity, the market moves we've seen are not surprising. After all, since the vaccine breakthroughs of one year ago, the possibility of the emergence of a new variant has always been the biggest threat to market confidence. In that context, with the falls this morning having only taken the FTSE 100 back to its mid-October 2021 level, this is not reflective of panic in markets, but rather of an appropriate repricing of risk levels.

It appears likely that markets will be volatile over the coming weeks, as more data on the variant becomes apparent. The government are clearly watching this closely and are likely to act quickly (if for no other reason than to avoid a repeat of the criticism they received for their slow decision to curb travel from India after the delta variant emerged).

Central banks are also likely to be watching this closely. With the Bank of England's Monetary Policy Committee next meeting on 16th December and a rate rise decision in the balance, this could perhaps tilt the outcome towards maintain the current 0.1% base rate.

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