UOB Asset Management

Insights

The Start of the Big Rotation?

Overnight, drugmaker Pfizer announced that its COVID-19 vaccine has been 90% effective, in initial limited trials. This triggered a market rally with sectors that are COVID-19 recovery beneficiaries like airlines and financials leading the gains while the tech sector lagged. Since the start of COVID-19, the tech sector has led the market recovery as tech was expected to be relatively less affected by the pandemic. In fact, some businesses like online retailing performed better. By the same token, if a vaccine can bring COVID-19 under control, investors can expect the pandemic recovery companies to start playing catch up to tech.

The vaccine news is welcomed as it opens up investment opportunities**. Is this the start of the big rotation from tech to the pandemic recovery sectors? Our short answer is that we expect to see some rotation but not a massive sustainable shift yet.** Firstly, the Pfizer trial will continue and by definition, there are no guarantees in future trial results. Given the focus and resources committed to finding a vaccine, we believe that the likelihood of finding a vaccine is good although it remains to be seen if the Pfizer vaccine is 'the one'. Until an effective vaccine is found and is widely available and acceptable, we believe that any shift from tech to pandemic recovery sectors could be limited. Secondly, we believe that the investment case for the tech sector is a secular story and not just applicable under the pandemic. The adoption of tech in our everyday lives will likely continue to increase and this will help underpin demand for tech products and services in the medium to long term.

The Pfizer vaccine news comes shortly after the US Presidential elections**. As the dust settles down in the US Presidential elections, some overhang on financial markets have been removed** although there is some lingering concern that Trump has not conceded and is pursuing legal options. The outcome is a Biden victory and likely a split Congress – Democrats would control the House while Republicans would control the Senate.

A split Congress would present a more challenging environment to push for legislation changes**. Historically, a gridlocked government has often been Goldilocks for Wall Street – in other words, neither too hot or too cold, as excesses in policies are kept in check by opposing forces.** In Biden's case, some investors were concerned that he could roll back Trump's tax cuts or increased regulation to curb Big Tech. This looks more challenging with a Republican-controlled Senate and financial markets would see this positively. On the flipside, fiscal spending could be more modest under a gridlocked government. Additionally, we think that Biden would deal with the pandemic better.

The tough stance on China is likely to continue under a Biden presidency although the method will differ. While Trump favours tariffs (which can be unpredictable to markets), Biden is likely to favour diplomacy with allies to deal with China. The market is likely to favour Biden's approach more given its predictability.

Overall, we see a slightly improved outlook for US equities under a Biden Presidency. Meanwhile, Asian equities are expected to do well although it would have been better under a Blue Wave (Biden Presidency with Democrats controlling Congress).

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