Part B

Financial Performance Q3 2020/21

1.0 General Fund

1.1 General Fund performance of the quarter is shown in the table below:

Department	Current Budget £'000	Profiled Budget £'000	Actual to 31st Dec 2020 £'000	Variance to date £'000	Q2 Variances £'000
SUMMARY					
Corporate Services	3,337	3,595	3,873	278	329
Service Delivery	5,876	5,397	7,060	1,663	1,008
Regeneration & Planning	(37)	(270)	392	662	470
Tourism & Enterprise	2,659	1,835	5,190	3,355	2,790
Total Service Expenditure	**11,835**	**10,557**	**16,515**	**5,958**	**4,597**
Contingencies & Corporate Savings	(599)	(449)	0	449	375
Capital Financing and Interest	2,286	1,715	1,715	0	0
Net Expenditure	**13,522**	**11,823**	**17,891**	**6,407**	**4,795**
			Income Recovery Claims	***(2,134)***	***(1,500)***
			Net Variance	**4,273**	**3,295**
			Increase	*978*	

1.2 The position at the end of December shows a net deficit of £4.273m after the latest income recovery claim of £2.134m. This represents an increase of £978k on the Quarter 2. Key variances are set out in the following table:

Corporate Services		
Additional IT costs – software licences, network & equipment costs		£276k
Service Delivery		
Account & Case Management – mainly salary savings	(£78k)	
Housing Benefit Payments and Subsidy - mainly a shortfall in subsidy on emergency accommodation	£539k	
Homelessness – additional accommodation costs	£93k	
Ground maintenance savings not achieved	£125k	
Waste Contract – delay in Trade Waste savings being achieved	£150k	
Solarbourne – additional repair and maintenance costs	£29k	
Licences – reduced income	£35k	
Revenues – no summons cost income	£302k	
Crematorium – reduction in income	£218k	
Car parks – mainly reduction in income	£224k	£1,637k

Regeneration & Planning Staff savings Housing Delivery Team – feasibility work Corporate Landlord – mainly reduced rental income	 (£85k) £102k £706k	 £723k
Tourism & Enterprise Redundancy costs Net income losses on facilities and events	 £508k £2,847k	 £3,355k
Contingencies & Savings – 6 months of corporate savings target relating to vacancy savings and staff reductions. The actual savings are contained within the relevant service areas.		£449k

1.3 The latest forecast for 2020/21 is included in the General Fund budget report elsewhere on this agenda. The revised estimated shortfall for this year is expected to be in the region of £5.6m, before redundancy and set up costs of £1.2m. The current shortfall of £3.9m is expected to increase in the last quarter of the year to around £5.6m taking on board the impact of the current lockdown on income and added cost pressures.

2.0 HRA

2.1 HRA performance of the quarter is as follows:

	Full Year Budget £'000	Profiled Budget £'000	Actual to 30 June 2020 £'000	Variance to date £'000
HRA				
Income	(15,473)	(11,723)	(11,723)	-
Expenditure	13,501	10,137	9,984	(153)
Capital Financing & Interest	1,897	1,169	1,169	-
Contribution to Reserves	3,656	3,518	3,518	-
Total HRA	**3,581**	**3,101**	**2,948**	**(153)**

There is a positive variance of £153k at the end of quarter 3 (Q2 £101k). The main variance relates to a £119k underspend on the management fee. A further breakdown is shown at **Appendix 2**.

3.0 Capital Expenditure

3.1 The detailed capital programme at **Appendix 3,** provides a summary of spend for quarter 3 compared to the revised allocation for 2020/21 and the total spend for each scheme as at 31 December. Current spend totals £5.411m against the latest programme of £21.137m. Comments are provided for each scheme in the appendix.

4.0 Collection Fund

4.1 The Collection Fund records all the income from Council Tax and Non-Domestic Rates and its allocation to precepting authorities.

4.2 The Collection fund for the year is as follows:

	Council Tax £'000	Business Rates £'000
(Surplus)/Deficit Brought Forward 01 April 2020	**(208)**	**331**
Total Collectable Income for year*	(71,717)	(10,937)
Payments to Preceptors	71,543	37,467
Write offs, provisions for bad debts and appeals	498	1,032
Additional Business Rate Reliefs – as a result of Covid-19	-	(24,676)
Estimated Balance 31 March 2021 – (Surplus) / Deficit	**116**	**3,217**
Allocated to:		
Government	-	1,608
East Sussex County Council	85	1,287
Eastbourne Borough Council	14	290
Sussex Police	11	-
East Sussex Fire & Rescue	6	32
	116	**3,217**

* *This represents the latest total amount of income due for the year and allows for changes as a result of discounts, exemptions and reliefs, as well as increases in the Council Tax and Business Rate bases.*

4.3 The allocation to preceptors reflects the operation of the Collection Fund for Council Tax and Business Rates which are distributed on different bases under regulations. The distributions have now been finalised for 2021/22 in line with the above allocations.

4.4 Council Tax is showing a deficit of £116k for the quarter (Qtr2 £1.033m), which is a further improvement of £917k. However, this still represents an in-year deficit of £324k as there was a surplus of £208k brought forward from the previous year. The Council's share of the overall forecast deficit is £14k.

4.5 There is a Business Rates deficit of £3.217m at the end of December (Q2 £3.560m), which is a reduction of £343k. This represents an in-year deficit of £2.886m as there was a deficit of £331k brought forward from the previous year. There continues to be a significant risk associated with business rate income, despite the additional business rate reliefs (£24m) that have been given by Government.

5.0 Treasury Management

5.1 The Annual Treasury Management and Prudential Indicators were approved by Cabinet and Council in February.

5.2 **Annual Investment Strategy**

The Treasury Management Strategy Statement (TMSS) for 2020/21 which includes the Annual Investment strategy, was approved by the Full Council on Wednesday, 19th February. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;
- Yield.

There were no short term investments held as at 31 December. Approved limits within the Annual Investment Strategy were not breached during the quarter ending 31 December 2020, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 37 days during the quarter. Investment rates available in the market have continued at historically low levels. Investment funds are available on a temporary basis and arise mainly from the timing of the precept payments, receipts of grants and the progress of the capital programme.

As shown by the interest rate forecasts, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

5.3 **Negative investment rates**

While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short-term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market. Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

5.4 Investment performance for the quarter ending 31 December is as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earning
7 day LIBID	-0.06%	0.03%	£2,012

The Council outperformed the benchmark by 0.09%. The budgeted investment return for 2020/21 is £50,000. Due to cash flow requirements and current low interest rates, investments held are at minimum and it is unlikely that this budget will be achieved, but this will be offset by reduced borrowing.

The continuous use of internal balances is in line with the Council's strategy and reduces the amount of interest payable on loans and investment income.

5.5 Borrowing

The following loan was taken during the quarter:

New Short Term Borrowing				
Start Date	Counterparty	Amount £m	Interest Rate %	End Date
23/11/20	North Yorkshire County Council	5.0	0.25	22/11/21
23/11/20	Hertfordshire County Council	7.0	0.10	24/05/21
24/11/20	North Yorkshire County Council	5.0	0.25	23/11/21
Total		**17.0**	-	-
Less Short Term Borrowing Repaid				
Repayment Date	Counterparty	Amount £m	Interest Rate	No of Days
30/10/20	Police and Crime Commissioners – Gwent	5.0	0.14	123
23/11/20	Sevenoaks District Council	3.0	0.55	186
23/11/20	North Yorkshire County Council	5.0	0.55	186
24/11/20	North Yorkshire County Council	5.0	1.00	274
Total		**18.0**	-	-
Net New Short Term Borrowing during quarter		**(1.0)**	-	-

Cash flow predictions indicate that further borrowing will be required in the next quarter, depending on the timing of capital expenditure. The exact timing and nature of this borrowing will be considered at that time in light of prevailing interest rates.

5.6 Interest Rate Forecast

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Following the conclusion of the HM Treasury review of PWLB margins over gilt yields on 25.11.20, all forecasts below now include the 1% reduction in the non-HRA Certainty Rate (now gilt yields plus 80bps):

Link Group Interest Rate View	9.11.20												
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.1
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.1
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.1
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.2
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.0
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.3
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.8
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.6

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2024 as economic recovery is expected to be only gradual.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields.

While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been **the gradual lowering of the overall level of interest rates and bond yields in financial markets.** Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields initially spiked upwards in March, we have seen yields fall sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March, and starting massive quantitative easing driven purchases of

government bonds: these actions also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds.
Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. **At the close on 31st December, all gilt yields from 1 to 8 years were in negative territory, while even 25-year yields were only at 0.84% and the 50 year at 0.64%.**

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019-20** without any prior warning. The first took place on 9.10.19, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11.3.20, but not for mainstream non-HRA capital schemes.

A consultation was then held with local authorities and **on 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates;** the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

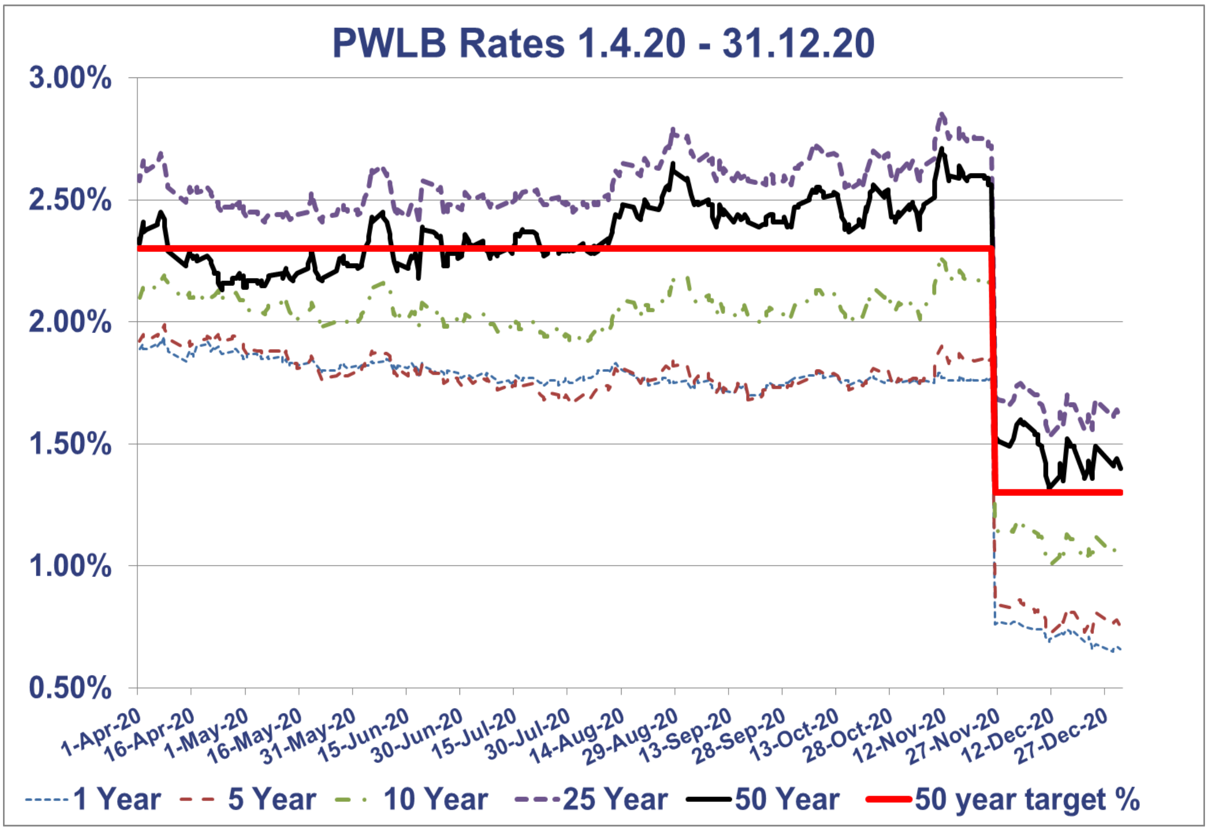
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

As the interest forecast table for PWLB certainty rates, (gilts plus 80bps), above shows, there is likely to be little upward movement in PWLB rates over the next three years as it will take the UK a prolonged period to eliminate spare capacity in the economy so that inflation might start to become a sufficient concern for both the MPC to consider raising Bank Rate, and for gilt holders to require a higher yield.

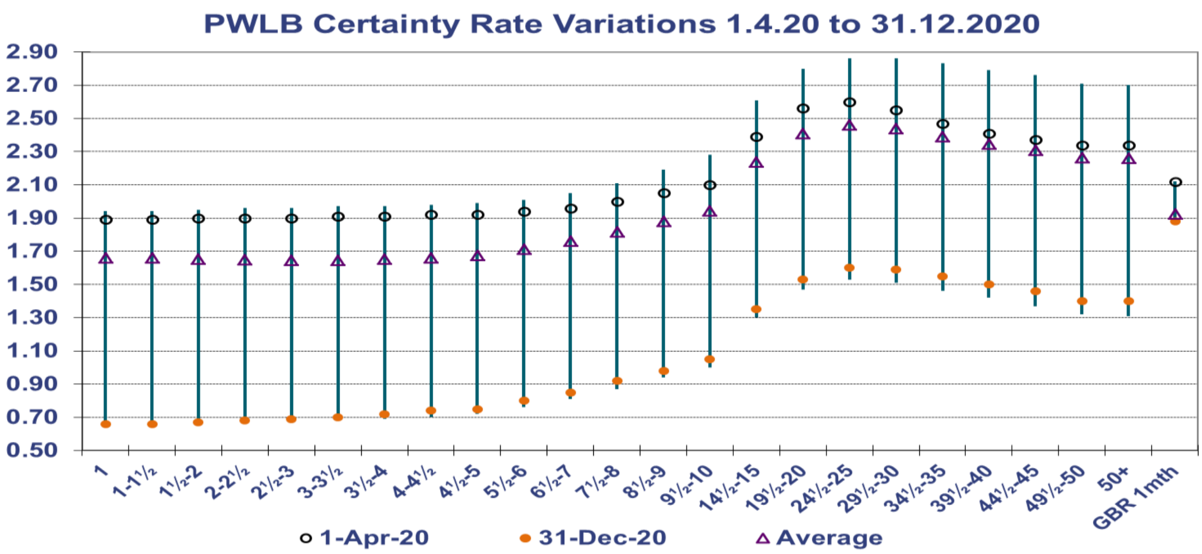
5.7 **Debt Rescheduling**
Debt rescheduling opportunities have been limited in the current economic climate and following the various increases in the margins added to gilt yields which has impacted PWLB new borrowing rates. During the quarter ended 30 September 2020, no debt rescheduling was undertaken.

5.8 **PWLB maturity certainty rates (gilts plus 180bps) year to date to 31st December 2020**
The 50 year PWLB target certainty rate for new long term borrowing was unchanged at 2.30% all year to date until the margin change on 25.11.20 when it fell to 1.30%. Year to 31st December 2020. The following graphs and tables are optional; choose whether to include and whether to use the half year or the quarter to 31st December 2020.

Year to 31st December 2020



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low date	29/12/2020	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.66%	1.68%	1.94%	2.46%	2.26%



5.9 **Compliance with Treasury and Prudential Limits**

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the quarter to 31 December 2020 the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices, except for temporary balances exceeding limits with Lloyds Bank.

5.10 **Climate change and environmental implications**

Treasury management is a Council-wide function and its climate change, environmental and sustainability implications are the same as for the Council itself. The Council and its TM Advisors will have regard to the environmental activities of its Counterparties (where reported) but: -

Prioritises Security, Liquidity and Yield,

Recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily-scrutinised part of their overall business.

Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Council's capacity to mitigate risk through diversification.

5.11 **Economic Background**

Some good news came during the quarter as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK Medicines and Healthcare products Regulatory Agency (MHRA) provided authorisation for emergency supply of two COVID-19 vaccines in December and the rollout to individuals in the highest priority groups began in earnest.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline Having been agreed with the European Union (EU) on Christmas Eve, the Brexit trade deal was voted through the House of Commons by 521 votes to 73 and then written into law after passing through the House of Lords and given royal assent.

The Bank of England (BoE) maintained Bank Rate at 0.1% during the quarter but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its December interest rate announcement, the BoE noted that plans to roll out COVID-19 vaccines would reduce some of the downside risks to the economic outlook but that recent rises in the number of infections is likely to lead to weaker GDP growth than had been predicted in its November Monetary Policy Report.

Government initiatives continued to support the economy as the furlough (Coronavirus Job Retention) scheme was extended once again to April 2021, supporting some 10 million jobs, and meaning that by then time the government would have provided taxpayer support to jobs for over a year.

During the quarter ended 31st December 2020 *(quarter 3 of financial year 2020/21):*

- The UK and EU signed a last-minute Brexit deal;
- Effective COVID-19 vaccines were announced and started to be rolled out;
- A second lockdown in November and a strict tiering system was imposed in December;
- The MPC announced an extra £150bn of Quantitative Easing (QE);
- The Chancellor announced a new fiscal package worth £55bn (2.4% of GDP) to support the economy;
- The positive news on Brexit and vaccines boosted the pound and the FTSE 100.

- **The Brexit deal the EU and UK signed on 24.12.20 came too late to give a boost to GDP growth in Q4. In fact, GDP probably fell again in the final quarter.** The second COVID-19 lockdown imposed in November and the subsequent tier system, which kept hospitality businesses closed in much of the country, could mean that GDP fell by about 3.5% q/q in Q4. Indeed, our CE BICS Indicator suggests that the economy fell by 8.0% m/m in November and that the economy did not rebound by much in December.
- **Admittedly, consumer spending appears to have held up much better than in the previous England-wide lockdown in March/April.** Retail sales "only" fell by 3.8% m/m in November, a fraction of the 18.1% m/m fall in April. This still left them 2.7% above their pre-crisis level and there was a much smaller drop in car sales in November than in April, (-29% m/m vs -98% m/m). What is more, the mini-boom in the housing market meant mortgage approvals rose to 104,969 in November, leaving them 43% above their pre-crisis level.
- However, much of the resilience of retail sales is because November's lockdown was less strict as schools, factories and construction sites stayed open. This meant that petrol sales held up much better, "only" falling by 16.6% m/m compared to the 51.8% m/m contraction in April. Also, firms have improved at selling online. Indeed, the value of all the goods sold on the internet rose by 6.3% m/m in November. **What is more, the more widespread Tier 4 COVID-19 restrictions, which closely resemble November's lockdown, raise the chances that the economy stagnates, if not contracts, in the first three months of 2021.**
- The reduced ability of households to spend during November's lockdown meant that they repaid £1.5bn of unsecured loans in that month. But lower debt and higher savings means that consumers will be in a good position to boost spending once COVID-19 restrictions are eased.
- In response to the second lockdown, in November the Chancellor announced a further £55bn, (2.4% of GDP), of COVID-related spending in 2020/21 on top of the total £280bn, (14.5% of GDP), of policy support previously announced. He also extended the furlough scheme, which pays up to 80% of an employee's wages and was due to end on 3110.20, until 30.04.21, and announced that businesses forced to close would be able to get a grant of £3,000 per month.
- The extraordinary fiscal cost of the crisis is being reflected in public finance figures. Indeed, the government borrowed an extra £31.6bn in November, the third highest

figure on record, taking total borrowing this financial year so far to £240.9bn compared to £57.4bn in the whole of 2019/20. What is more, borrowing is likely to remain high over the next few months as the new restrictions keep many businesses closed and millions of workers on the furlough scheme. We expect the budget deficit to reach about £420bn, (21.7% of GDP), in 2020/21, its highest since WW2 and slightly more than the £400bn the OBR forecast in its November report.

- **However, beyond the next few months we think the outlook is much brighter now a Brexit deal has been signed and an effective vaccine is being rolled out.** Indeed, we are now more optimistic than the OBR and the Bank of England. Admittedly, custom checks and procedures will still be required on goods moving between the UK and the EU for the first time since 1973, so there will probably be some disruption at the ports in early 2021.
- **Any disruption at the borders will probably be short-lived as firms will quickly become familiar with the new procedures.** The Brexit deal removes the uncertainty and downside risk of a no deal. and for the first time in four-and-a-half years, businesses can now plan knowing the shape of the UK/EU relationship.
- **What's more, in contrast to what most other forecasters appear to have assumed, we are not convinced that the COVID-19 crisis will significantly reduce the economy's supply capacity and prevent it from returning to the pre-crisis trend.** Our analysis suggests that permanent hits to supply are most likely to happen after recessions associated with financial crises and wars, as they reduce the supply of credit or destroy large parts of the capital stocks. Neither of those things has happened this time. As such, we expect the economy to be just 1% smaller in 2024/25 compared to if the pandemic had never happened and to get back to its pre-virus trend later in the decade.
- So, rather than running a deficit of 3.9% of GDP by 2025/26 as the OBR expects, we think the deficit may have returned to around 2.5% of GDP by then. In this case, there may not be much of a fiscal hole to fill. **In fact, the danger is that fiscal policy is tightened too soon to fill a perceived hole in the public finances caused by the crisis that never materialises.**
- As a result, we think that the £150bn of Quantitative Easing (QE) that the Bank committed to at its meeting on 4.11.20 may prove to be the last loosening of policy it will need to do. The risk to this view is that the Bank may want to respond to the latest lockdown, but even if it does, we think it will increase <u>the pace</u> of the asset purchases already announced, rather than increasing its total QE. The Bank is also probably not ready to implement negative rates yet so this currently limits its ability to cut rates.
- **However, unlike the financial markets, we do not think the Bank will raise rates in the next five years.** Admittedly, the end of the VAT cut for the hospitality industry on 31.3.21 and higher oil prices, will probably push inflation briefly above 2.0% in late 2021. But the time spent above 2.0% is likely to be fleeting. We expect inflation to be closer to 1.5% in 2022 than 2.0%. Even if inflation did rise to 2.0%, the Bank has said it would need to be convinced it will <u>stay</u> above 2.0% before it tightens policy. As such, Bank Rate may not rise above 0.10% for around five years. After all, in the minutes of its December meeting the MPC said risk management considerations implied that policy should lean strongly against downside risks to the outlook: we, therefore, expect the MPC to wait until the economy is fully recovered from the crisis before it considers raising rates.
- Record low interest rates for the next few years will keep equities looking attractive relative to bonds. The rotation away from the tech stocks which have benefited from

COVID-19 lockdowns, towards more traditional consumer-facing and financial stocks, should boost UK equity prices over the next few years. But a stronger pound will keep any market exuberance in check. We expect the FTSE 100 to rise by about 13% from 6,650 now to 7,500 by end-2021.

- The key risk to our economic and financial views is if a third lockdown is implemented across the UK in Q1, (as has now been announced on 5th January, with some variations between nations). That would probably cause GDP to shrink again and would raise the risk of greater longer-term scarring effects on the economy, putting the onus on policymakers to do more. That said, we disagree with the markets' expectations that Bank Rate will be cut into negative territory in the coming months. If it were to act, we think the Bank would prop up demand through speeding up its asset purchases or boosting the uptake of its lending schemes, rather than negative rates.
- The story is similar in the eurozone where the additional COVID-19 restrictions which have been rolled out across Europe, will hamper growth in Q4 2020 and Q1 2021. However, now that a vaccine has been approved by European authorities, the economy should be able to rebound rapidly in the second half of 2021. The ECB's message that it will persist with its flexible asset purchase programme until at least early 2022, should reassure investors that there will not be a reversal of the compression of bond yields anytime soon to historically low levels.