A month in the markets

By John Mullins

December 2020

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Month of November

Market Review

Positive news from three successful COVID-19 vaccine trials and Joe Biden's victory in the US Election helped to drive strong performance across all major global stock markets in November. Surging COVID-19 cases and a fresh round of lockdowns in Europe and the UK at the end of October had initially rattled investor confidence, but a sense of optimism soon took over when it became clear that there will be at least three vaccines available in 2021.

US

In the run-up to the US Election, Joe Biden was the clear favourite to win the presidency. After holding a clear lead in the opinion polls for months, what remained to be seen was whether he would win by a landslide or by a much thinner margin. After a lengthy counting process due to record voter turnout and a wave of postal ballots, Joe Biden was deemed president-elect with a convincing margin, although the Democratic party failed to gain control of the Senate and lost some ground in the House of Representatives.

The Election outcome was positive for stock markets, as a Joe Biden presidency takes away some of the uncertainty that defined President Donald Trump's tenure in office. Additionally, a Republican-controlled Senate will curtail some of the Democrats' more progressive tax and spending policies.

Perhaps more significantly for investors, the announcements from pharmaceutical groups Pfizer/BioNTech and Moderna that their respective COVID-19 vaccines were more than 90% effective, helped to push stock markets higher over the month. Nevertheless, COVID-19 cases continued to surge over the month as the economy remained largely open.

Europe and the UK

Much of the UK was placed under a fresh round of lockdowns in November in an effort to slow the spread of COVID-19. Economic activity inevitably fell over the month as non-essential businesses were ordered to close and people encouraged to stay at home. While the manufacturing sector was largely unscathed, companies

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in the services sector struggled as many businesses were unable to remain open. Official forecasts released by the Office for Budget Responsibility revealed the damage done by the pandemic, with the UK economy expected to shrink by 11.3% in 2020 and unemployment projected to rise to 7.5% by the middle of next year.

Europe's economy continued to weaken in November as spiking COVID-19 cases and aggressive lockdown restrictions took a toll on business activity. The services sector, which includes restaurants and retail stores, was the hardest hit by the virus containment measures and contracted over the month as many businesses closed their doors. The European manufacturing sector, on the other hand, managed to continue growing, although its rate of growth slowed down slightly due to lockdown measures.

Asia-Pacific

When it comes to COVID-19, Asia has tended to fare better than the rest of the world. China was the first country to begin its recovery from the pandemic and its economy continues to strengthen. Manufacturing activity reached its highest rate since 2017 over the month, much of this being driven by consumer spending on travel, leisure and retail goods. China has also seen strong demand for its exports, although there are concerns that this demand will eventually weaken due to lockdowns in the UK and Europe. Japan continued to struggle. Despite the country's economy bouncing back strongly between July and September, the manufacturing and services sectors slowed down in November as business activity declined.

Meanwhile, 15 countries in the Asia-Pacific region signed a major trade deal over the month, including Australia, China, Japan, New Zealand and South Korea, as well as Indonesia, Malaysia, the Philippines and Thailand. The deal is expected to help remove trade barriers within the region.

Outlook

With three promising vaccines in the pipeline, there is optimism that the pandemic will be curtailed at some point in 2021, allowing the global economy to return to normal. We are not out of the woods yet as COVID-19 cases continue to surge in the US and restrictions remain in place throughout much of Europe and the UK. However, with a possible end in sight and both governments and central banks providing financial support to keep economies moving, our view is that we are at or near a bottoming of the economic cycle.

With this in mind, we have a slightly more optimistic view of the recovery, while also being mindful that it will take some time before vaccines are distributed in large enough quantities for lockdowns to be lifted completely.

Portfolio activity

Throughout November we decided to increase our position in company shares across some portfolios, as the positive vaccine news suggests light at the end of the tunnel for the pandemic. With this in mind, we made more investments in so-called cyclical areas, which sell goods and services that are in higher demand when the economy is stronger.

We have increased our position in certain portfolios to US company shares and have also added Asian shares because we believe both Asia-Pacific and Japanese companies will perform better as the world recovers from the pandemic.

In bonds, we continue to hold European investment grade corporate bonds and also hold core government bonds in some portfolios. However, because government bonds offer reduced diversification benefits at current prices, we also continue to hold gold and counter-cyclical currency exposures.

Note: The Portfolio Investments and Atlas Portfolios are Multi-asset, globally diversified portfolios. Although the portfolios may share similar underlying investments in terms of asset and fund selection, they will differ in terms of the way the funds are managed and the proposition in which they are held. Please refer to the Key Investor Information Document (KIID) for details on the objectives of the individual funds. If you have any questions relating to specific differences of the Portfolio Investments or Atlas Portfolios fund ranges, please contact your Private Banker.

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