November Market Reflection

| 2 December 2020 |

November was an outstanding month for equities around the world, as investors cheered positive data from no fewer than three coronavirus vaccine trials. Although the releases were not entirely unexpected, the level of efficacy was much higher than most had dared to hope for, allowing markets to begin to discount a return to more normal levels of activity in the worst affected areas of the economy. Headline indices failed to capture the rotation within markets. Sectors related to the travel and hospitality industries led the way, with the Energy sector buoyed by a resurgence in the oil price. Banks were also very strong in anticipation of a steeper yield curve and reduced bad debts, both of which factors will support profitability. Crucially, this could encourage regulators to permit the payment of dividends once again. Another major source of uncertainty to be largely resolved during the month was the US presidential election, although not without several tense days of ballot-counting. Although Joe Biden prevailed in his bid to secure the White House, the much-heralded “blue wave” did not materialise, potentially leaving Congress in gridlock for at least another two years. Everything now hangs on the results of the two run-offs for Senate seats in the state of Georgia on 5th January. The Democrats need to win both to achieve parity, which would leave Vice-President-elect Kamala Harris with the casting vote. However, such a narrow majority would not permit President Biden to advance the policies supported by the more “progressive” wing of the party. The remaining unresolved imponderable is Brexit, where talks look set to grind on well into December, having already passed numerous supposedly hard deadlines. Although the strength of the pound reveals general optimism that some sort of deal will be reached, nothing can be taken for granted.

- The IMF’s latest forecast sees the global economy shrinking by 4.4% in 2020, followed by a recovery of 5.2% in 2021.
- Despite being the source of Covid-19, China will emerge as one of the biggest winners, with its economy expanding marginally in 2020 before growing by 8% in 2021.
- Global corporate earnings, after falling an expected 18% in 2020, are forecast to rise by 26% in 2021 to a new peak.
- The first SARS-CoV-2 vaccines are expected to be approved as early as December, although logistical challenges mean that broader populations will not be inoculated until well into 2021.
- Markets will anticipate the return to more normal activity levels well before they are achieved. However, the likelihood of regional spikes in Covid cases over the winter and the resulting social restrictions will create a bumpy path.

Investec

- Government bond markets have remained resilient in the face of a more “risk-on” market tone. This is testament to the continued support of central banks via their asset purchase programmes. There is no sign of these being curtailed soon.

- Governments continue to provide generous fiscal support despite burgeoning deficits. In the longer term more attention will be paid to reducing debt levels, possibly through higher taxes. Low interest rates and bond yields mean that there is no immediate pressure. Sustained recovery from the Covid-induced recession is the priority.

- Debate continues over longer term inflation trends. The outcome will be crucial to portfolio construction.