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# Monthly Market Update



## December 2020

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“The confidence of investors and public health experts was raised in November as two Covid-19 vaccines showed great promise in clinical trials.”



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### November Market Commentary

The confidence of investors and public health experts alike was raised during November due to positive news that two of the Covid-19 vaccine candidates have shown promise in clinical evaluations. However, approval for general use, production and distribution in substantial quantities, will take time. In the meantime, immense challenges remain as the spread of the disease intensifies ahead of the northern hemisphere's winter.

A trade agreement that eliminates most tariffs and quotas for 15 Asia-Pacific nations was signed in November. The world's largest trade agreement (accounting for nearly a third of global GDP and more than 2.2 billion people), the Regional Comprehensive Economic Partnership will eliminate tariffs and quotas on more than 65% of goods traded within the region and make it easier to do business.

#### **United Kingdom**

FTSE All Share: 12.74%

GDP in the UK increased by a record 15.5% in Q3, as Covid-19 lock down measures were eased. Overall GDP is down by 9.6% over 2020, reflecting the sharp fall in activity earlier in the year. Economists expect that the economy will contract during Q4 as tighter restrictions

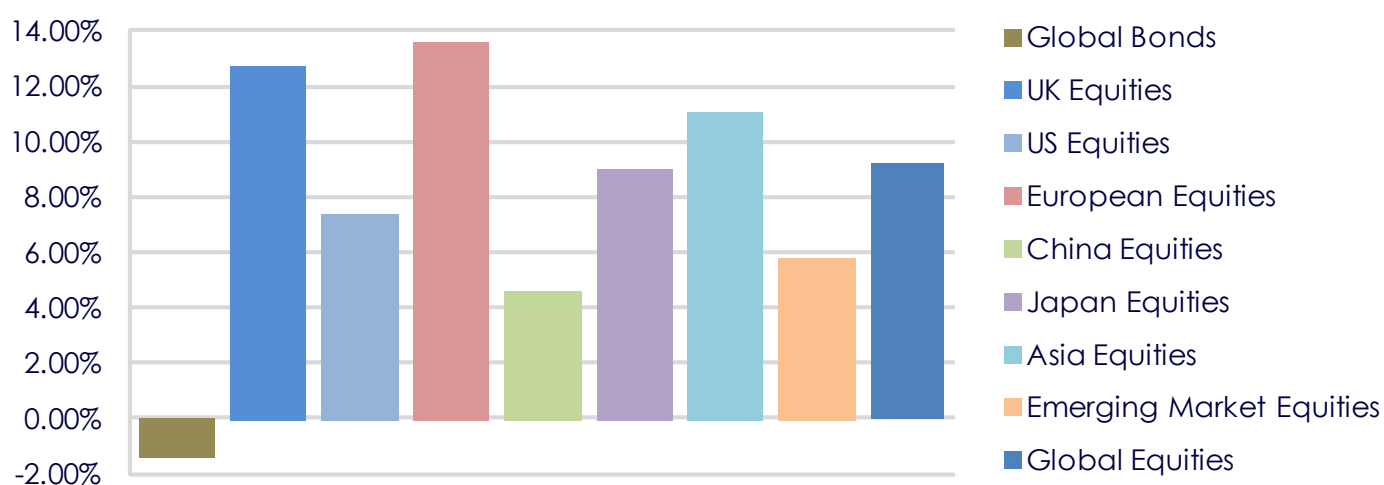
were imposed in the recent lock down. Full year GDP is forecast to contract by up to -12%.

The Bank of England maintained its 0.1% base rate and said it would increase its target for UK government bond holdings by £150 billion. The Bank said this easing of monetary policy was warranted amid a low inflationary environment, given the significant sources of economic uncertainty. Headline inflation

rolled back early in 2021, leading to a greater chance of the economy reaching pre-Covid-19 output levels before the end of 2021.

The US Federal Reserve left its key interest rate unchanged at 0% - 0.25% and inflation remained unchanged in October compared with September on a seasonally adjusted basis. Unemployment fell to 6.9% in October led by gains in the leisure and hospitality sector.

## Discrete Monthly Performance as at 30/11/2020



reached 0.7% in October and unemployment rose to 4.8% in Q3.

The clock is ticking on negotiations between the UK and the EU on a trade deal. An agreement would realistically need to be reached in the coming days to ensure sufficient time for its ratification by both the UK and European Parliaments before the end of 2020.

### United States

S&P 500: 7.40%

The US economy grew at an annual rate of 33.1% in Q3. However, an increased likelihood of partial Covid-19 related lock downs and a lack of further fiscal support this year suggest Q4 GDP growth is likely to be between 2% - 5%. Meanwhile, there is promising evidence that production capacity for Covid-19 vaccines currently in trial is sufficient to deliver ample doses in early to mid 2021. This increases the likelihood that any lock down measures will be

### Europe

FTSE Developed Europe ex UK: 13.56%  
GDP in the euro area rose by 12.6% in Q3. This was the sharpest increase on record, following an 11.8% decrease in Q2 that reflected lock downs to stem the spread of Covid-19. Experts foresee a full year 2020 GDP contraction of between -6% to -8%.

The European Central Bank left its main interest rate unchanged at -0.50%, whilst continuing its Asset Purchase Programme at €20 billion a month and leaving its Pandemic Emergency Purchase Programme intact at €1.35 trillion. Inflation fell by -0.3% in the euro area in October, a third straight month of decline.

Unemployment in the euro area was 8.3% in September, unchanged from August, with government efforts including furlough and wage-support schemes holding unemployment below levels seen in the 2008 global financial crisis.

## China

CSI 300: 4.64%

China remains on course to be the world's only major economy to reach pre-pandemic trend levels by the end of 2020, albeit Q3 GDP growth of 4.9% was less than expected.

Economists expect China's Q4 growth will be around 6% and full year growth to end up being between 2% and 3%.

## Japan

MSCI Japan: 8.95%

The economy in Japan grew by 5.0% in Q3 and at an annualised rate of 21.4%. This first quarterly gain in a year signalled Japan's exit from recession. However, experts are concerned about the risk of a further downturn as both domestic and external demand conditions face headwinds amid a resurgence of Covid-19. The Bank of Japan left its key interest rate at -0.1% at its October meeting.

## Emerging Markets

MSCI Emerging Markets: 5.81%

Emerging markets outperformed many of the

developed world indices during the month. North Asian economies' out performance is in large part due to a relatively high weighting of technology and online companies and because so far, they appear to have effectively contained outbreaks of Covid-19.

## Global Bonds

Bloomberg Barclays Global Agg: -1.39%

Sentiment continued to weaken in October as fixed interest investors sought to balance many unknown risks such as deteriorating economic growth prospects, unpredictable US elections, Brexit and national shutdowns due to Covid-19.

Longer term US government bonds and UK gilts yields rose, but German government bond yields ended the month broadly lower. Volatility in corporate bond markets was generally low, with earnings proving to be surprisingly resilient and the technical support provided by global central banks, through bond purchase programmes, remaining the dominant force underpinning performance.

**All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.**

## Cumulative Performance and Annualised Volatility as at 30/11/2020

	1 Year %	3 Years %	5 Years %	Volatility % <sup>2</sup>
Global Bonds	5.00	15.72	41.34	9.54
UK Equities	-10.29	-1.86	22.11	13.62
US Equities	13.17	44.43	110.55	13.17
European Equities	6.91	14.33	57.30	13.59
Japan Equities	8.75	16.98	64.51	12.35
Asia Equities	13.35	22.46	92.56	14.86
China Equities	37.39	35.19	70.58	18.80
Emerging Market Equities	14.74	17.10	87.61	15.04
Global Equities	10.96	33.17	88.90	12.57

Data source FE Analytics 30/11/2020. Indices used: Global Bonds: Bloomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.

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