INFORMATION FOR INVESTMENT PROFESSIONALS

Your success. Our priority.

Market updates

Investment team updates | 20 November 2020

US equities

- Last week (ending 13 November) US equities made another weekly gain with the S&P 500 up by 2.2% while small caps outperformed – the Russell 2000 was up by 6.1%.
- The big news of the week was on the vaccine side when Pfizer and BioNTech announced that the results from their Covid-19 vaccine trial showed that the treatment was much more effective than expected, showing in excess of 90% efficacy. This led to a dramatic market rotation into value and cyclical names and away from growth and momentum. Consumer discretionary and technology were the only sectors with negative returns while energy and financials saw a big bounce. Energy stocks were helped by a surge in crude on the vaccine news; West Texas Intermediate (WTI) was up 8.1% for the week.
- While there are still hurdles to cross before the vaccine can be deployed to the general public, Pfizer has said that it plans to have 50 million doses ready by the end of the year and more than a billion in 2021.
- The positive vaccine story continued into this week when Moderna announced that its Covid-19 trial had been close to 95% effective while also being easier to store and transport than Pfizer's.
- However, the vaccine optimism has been tempered by the rising Covid case count in the US, with new cases exceeding 150,000 a day and hospitalisations also rising significantly. Renewed lockdown restrictions are being imposed in many areas of the country.
- Following the election and what is likely to be a split Congress, hopes for a substantial fiscal stimulus package have receded. Any deal may wait until the Senate run-off for two seats in Georgia is concluded in early January.
- Weekly initial job claims rose slightly in the week ending 13 November at 742,000 versus 711,000 in the prior week, while continuing claims fell. The labour market recovery has eased off in recent months as temporary lay-offs have, for the most part, already rejoined the workforce, while the permanent lay-offs remain harder to bring back into the economy.
- In portfolios we have made some small changes by adding ride-hailing company Lyft in large cap core funds. We have also added to some names such as Mastercard.

European equities

- This week saw the second successful vaccine test announcement – again provisional, but a treatment where delivery is easier. This prompted a renewed flurry in markets, led by value counters, but less marked than last week and equally short lived.
- Brexit discussions are running close to the wire, but the likely new US president increases the pressure on Boris Johnson as Joe Biden's Irish Catholic roots mean he will not favour a hard Brexit endangering the Irish border arrangements.
- M&A continues in Europe, and together with loose monetary policy and other facets of stimulation this is likely to support markets in the face of continuing lockdowns and a spreading virus.
- Low interest rates and a slowish economic recovery are likely to favour long-term compounders with sustainable, predictable returns, but value flurries may recur.

Fixed income

Markets

- In core bond yields, the US 10-year moved lower over the week to 0.83% on Thursday 19 November from 0.88% on Monday 16th. Most other markets were relatively unchanged.
- In credit spreads, based on BofA Merrill Lynch Bond Indices, Global IG tightened over the week from 117bps to end Thursday 19 November at 113bps, and European HY from 418ps to 403bps.
- In FX the GBP had a slightly stronger week on the back of ongoing Brexit talks, ending Thursday 19 at $1.321. For perspective only, Bitcoin has risen 158% year-to-date.

News

- In vaccine news, the Pfizer/BioNTech vaccine is now reported as being 95% effective, higher than initially reported and similar to Moderna, though does need to be kept at -70 degrees, whereas Moderna only requires -20 degrees.
- In the US, housing starts for October were at their highest rate since February 2020, while industrial production rose 1.1% month-on-month, which was in line with expectations. However, retail sales only rose 0.3% month-on-month, and 5.7% year-on-year, which was weaker than expected and slowing.
- In the UK, retail sales rose 7.8% year-on-year, which is the highest level since April 2002, though in our view this is likely to wither into the new year due to November's England-wide lockdown and the likelihood of localised instances in December.
- Also in the UK CPI inflation was up 0.7% year-on-year, and core inflation 1.5% year-on-year – higher than expected.
- Japan: PMIs weaker at both Manufacturing and Service Sectors, Rest of World on Monday next.
- In Europe, the European Central Bank confirmed on Tuesday 17 November that very easy monetary policy will continue until the pandemic is over.
- The European banking sector is seeing a continuing consolidation theme. BBVA is in talks to potentially buy Banco Sabadell. This would increase BBVA's Spanish market share from around 14% to 23%.
- Eurozone Q3 GDP was up 12.6% quarter-on-quarter, but down 4.4% year-on-year.
- On Monday, China released strong industrial production figures, up 16.9% quarter-on-quarter, and retail sales, up 4.3% year-on-year.

Multi-asset

- With the Covid-19 case count continuing to rise rapidly across the US and Europe, the immediate economic outlook associated with renewed lockdowns is turning darker. Yet, announcements from Pfizer and Moderna around the efficacy of their vaccines has cheered financial markets considerably.
- It may seem paradoxical that equity markets are rallying into a new economic slowdown, but for equities – as long duration assets – the most important news of late has been that a future without a vaccine no longer looks likely.
- Pairing with that a relatively favourable US election outcome, some fairly resilient economic data – most recently in US consumption – and a now-complete V-shaped recovery in China, our asset allocation group has been feeling more positive on certain cyclical parts of the world, notably Asia ex-Japan and more recently Japan.
- Japan is highly levered to the global industrial and broader growth cycle, and with light inventories across sectors, so looks well placed to benefit from a cyclical upturn. Domestic consumption has been firm, supported by tight labour markets, close links with the rest of Asia and domestic fiscal stimulus which has been an area of positive surprise in 2020, and valuations are supported by the relative strength of earnings versus the rest of the world.

Note: all data as at 19 November 2020, unless otherwise specified. Source: Bloomberg.