Market review December 2020

Another extraordinary month in terms of stock market performance and news !
November started with extreme tension around American elections. Approximately 48 hours after the beginning of the counting, Joe Biden seemed to have sufficient advance to be designated winner of the presidential election. But, not surprisingly as he had made this known before the elections, Donald Trump immediately claimed scandal and fraud. The latter demanded, through his lawyers, the recount of votes in certain states where the result were very tight, such as Georgia.
As the days went by, his supporters began to drop him and urge him to admit defeat. Most of the heads of States, all around the world, officially congratulated Mr. Biden on his victory. As we write, even though Mr. Trump has not yet officially acknowledged his defeat, he toned down and agreed to begin the transition process, but his aura is crumbling day by day. He hinted that he would respect the results of the Electoral College vote scheduled for December 14.

Also on the news, the most advanced pharmaceutical companies in the hunt for a vaccine against Covid-19 have announced excellent efficiency results that have even surprised some scientists. First Pfizer and BioNTech issued a press release, followed a few days later by Moderna. According to these reports, their respective vaccines are about 95% effective.

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Market trends at the end of November 2020

			Equities in Local Currencies					
End of November	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	12,66%	10,75%	18,06%	20,12%	25,18%	9,28%	9,21%	5,64%
Perf 3 Month	5,20%	3,47%	6,72%	11,55%	15,89%	3,36%	9,40%	2,99%
Perf YTD	9,53%	12,10%	-6,74%	-7,69%	-15,42%	-1,32%	8,11%	21,53%

		Commodities				Currencies vs EUR		
End of November	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	26,68%	27,04%	-5,42%	12,82%	-2,34%	-2,00%	0,42%	-1,48%
Perf 3 Month	6,41%	5,10%	-9,70%	13,69%	0,08%	-1,57%	-0,28%	0,49%
Perf YTD	-25,75%	-27,89%	17,11%	22,77%	-5,99%	-2,13%	-5,54%	0,14%

			Bloomberg Indices Bonds Total returns					
End of November	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	1,82%	0,98%	0,27%	0,27%	-0,96%	2,82%	4,99%	3,07%
Perf 3 Month	1,55%	0,48%	2,14%	-0,81%	3,61%	1,92%	3,10%	1,64%
Perf YTD	7,75%	7,36%	3,90%	10,34%	8,43%	8,66%	4,45%	4,93%

Source : Bloomberg 30/11/20

This was enough to initiate a new rally on risky assets and witness the highest sector rotation in History. These announcements have obviously changed the outlook for the most depressed sectors since the virus appeared, such as tourism, airlines and leisure.
These industries therefore showed the best performances over the month with increases of more than 20% for some of these sectors. Of course, European banks and the energy sector took part in the party by rising by more than 34% and 38% respectively. The strength of this rebound also owes its salvation to short covering, as these sectors were the favorite candidates of hedge funds to implement "their short leg". The main European indices have thus posted historic monthly performances, such as the CAC40, which has gained more than 20%, the highest level since February 1988.
We have also seen a strong return of interest in small and mid caps in both Europe and the United States, with the Russel 2000 index who strongly outperformed the S&P500 by more than 15%.
The main American indices appreciated by about 8%, exceeding historical highs with a Dow Jones Industrial, which even had the luxury of crossing the psychological level of 30,000 points.
As for bonds, long rates remained fairly stable, while credit spreads tightened further. This situation implies a new (sad?) record as well; the cumulative amount of bonds with the highest negative interest rate.

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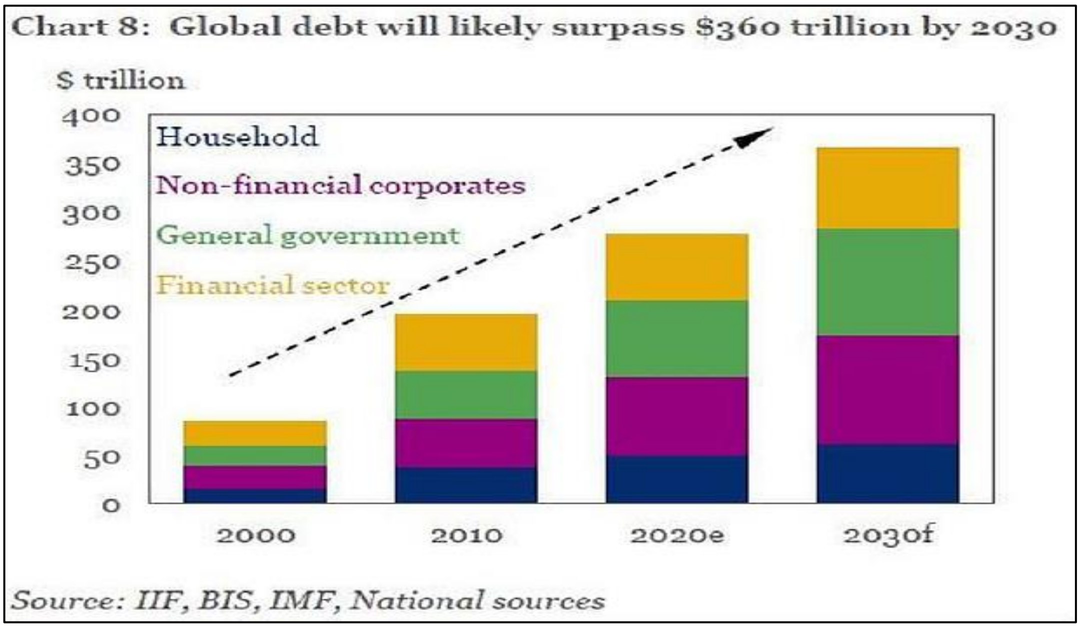
So let's talk about debt. No more austerity, no more budget restrictions, no more Maastricht treaty! In the name of the Coronavirus, States have opened the high-flow valves and do not seem to want to close them. This is good for companies in need and risky assets, but the huge amounts are starting to scare. According to the IFF (Institute of International Finance), the total world debt has reached a level of 272'000 billion dollars (+15'000 billion since the end of 2019), i.e. over 360% of world GDP (compared to 320% at the end of 2019). As we said it before, as long as there is confidence and as interest rates remain low, it is not a problem. But sooner or later, no matter which generation will have to deal with it, we will have to "get on with it".



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As for gold, it has undergone the "risk-on" mode of investors by correcting by more than 5%. However, the arrival of a vaccine could imply a reflationary scenario, which should be positive for gold, but this argument has not been retained... at least for the time being.
We remain positive in the medium term on gold prices and still recommend holding strategically between 4% and 6% in diversified portfolios. Contrary to gold, but still in the field of alternative investments, Bitcoin has reached an all-time high, winning nearly 40% in one month. It must be said that cryptomoney will continue to be in the news in 2021, perhaps making their appearance in strategic asset allocations of some portfolio managers.

Russel 1000 Growth vs Value

Source : Bloomberg

The $1 million question is whether the November sector rotation will last. It is obviously a bit early to answer this question, given that value and cyclical sectors have made several false starts in recent years, but the arrival of a vaccine could be THE game changer.
There are several important factors to ensure that this rotation will continue over time. We will mention just a few of them, such as a quick agreement between Democrats and Republicans for a new relief package for Americans, a final ratification of the European recovery plan that some countries like Hungary continue to oppose, or central banks that are still accommodating (this should be the case).
If all these factors are confirmed, equity markets (and particularly cyclical sectors) should expect a prolific year for markets in 2021, the dollar should continue to fall and emerging markets, led by China, should outperform.

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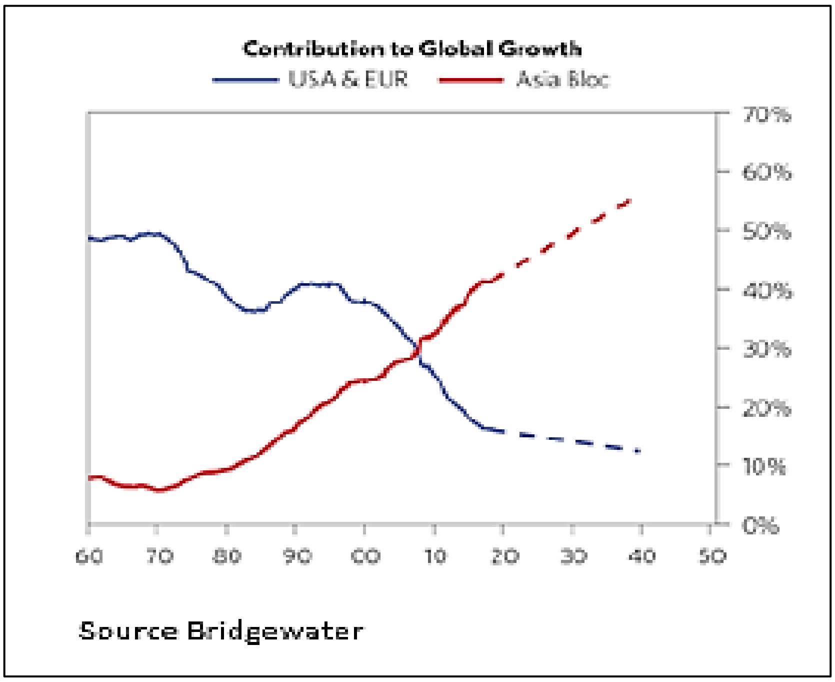
Last but not least, the ratification of the world's largest free trade agreement was announced in November. The RCEP (Regional Comprehensive Economic Partnership) which brings together 15 countries representing 30% of the world's population and GDP. This agreement strengthens China's position and its Asian trading partners while the United States and Europe are the ones left behind. Mr. Trump's mandate has only accelerated the exclusion of the United States and probably the decision of the latter to "wreck" the TPP (Trans-Pacific Partnership) in 2017 is not insignificant. The trade war is therefore far from over and is being fought on several fronts. Mr. Biden will have a lot to do for the United States to regain its commercial leadership.



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2020 will have been an extraordinary year in many ways. We can probably even say that there will be a before and after 2020, both in terms of investment and social levels. 2021 will bring new challenges, some of which we have already identified. We will see what kind of surprises we will face.
As we write the last lines of this extraordinary year, we recommend you to have a great time and, above all, to take care of yourself and your loved ones.
See you soon for new exciting adventures!
Happy Holidays.

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