INVESTMENT REVIEW – January 2021

The month of December saw an eventful and complex year draw to a close with an improving degree of optimism on the outlook. This was based on the roll-out of vaccines against the Covid-19 virus, a further stimulus package in the US and a deal between the UK and the European Union, if predicated on the continued support of central banks.

The pandemic continues to take a toll: the total number of confirmed cases worldwide has been just shy of 85m, nearly twice the number at end October, according to the data collected by Johns Hopkins University, and the number of recorded deaths has risen above 1.8m. The new variants add an extra challenge to the logistical ones of reaching full production and distribution of the various vaccines. Yet there is increasing confidence of a return to a social and economic life less dominated by the virus, which would allow attention to turn back to other health treatments, enable a more normal education for many young people and sustain sectors that have been under pressure from reduced demand.

Although the world economy is still vulnerable to the continued or renewed restrictions that Covid-19 has brought it has seen a further recovery. The OECD has calculated that global GDP will have fallen 4.2% in 2020 and then will increase by the same amount in 2021, led by the Asian countries that have brought the virus under control fastest and with potential upside if there is a swift vaccination programme. In China, whose exports grew by 21% in November and were up by half to the US in spite of tariff barriers, the economy will have shown overall growth in 2020 and the renminbi has now strengthened to a level not seen since the start of trade wars between the economic rivals.

Governments have looked to provide a further stimulus and to take on more debt. In the US the Senate finally reached agreement on a $900trn package under which each US citizen will receive a means-tested $600 cheque. Donald Trump, who has been reluctant to cede power, has called for the amount to be $2,000 and the issue is a factor in the run-off election in Georgia on 5th January - which if the Democrats take both seats would lead to a 50:50 split in the Senate, give the new vice-president Kamala Harris the decisive vote and provide Joe Biden with more scope to enact his policies. In Japan the government put in place a further stimulus programme in December following earlier efforts in the spring, this time with a focus on green and digital technology and one estimated to be able to boost GDP by 3.6%. The European Union managed eventually to reach an agreement on its €1.8trn budget and a €750bn recovery fund.

The EU also settled on the terms of the UK’s departure from the bloc, for goods if not yet services and with much of the devil in the detail. There is at least a degree of certainty while the avoidance of no deal should lessen the short-term disruption to trade, already complicated by the coronavirus. The country still faces challenges yet also has opportunities and its stock market may now trade at a lower discount to its peers, even as Sterling continues to rally against the US$.

Low interest rates have underpinned markets overall and there has been a continued search for yield, given the minimal returns for funds on deposit and that some four-fifths of investment grade debt yields less than 1%. The expectation is that inflation stays at a modest level – the consumer price index fell in China in November, for example, for the first time since 2009, in part as pig stocks improved after a different type of virus – although there have been rises in the prices of most commodities.

The last year has seen the emergence of a number of new trends as well as an acceleration in others, such as the nature of retail, the role of offices and the rise in the relative power of China. This is part of a wider pivot to Asia: the planned move of the annual meeting of the World Economic Forum from Davos to Singapore is perhaps not just due to the risk of Covid-19. Longer-term factors stay in place, such as demographics, with South Korea seeing a first decline in its population.

The hope seems to be that as a century ago, after the first World War and the devastating impact of the Spanish flu, there will be another Twenties decade given over to innovation, cultural change, heady consumerism and frenzied financial markets, as long as it does not end in the same crash and depression.

The FTSE 100 rose by 3.1% over December to end at a level of 6461, although that still left it 14.3% lower than at the start of 2020 in what has been the most disappointing return from major markets. Mid-sized companies in the FTSE 250 index gained 6% in the month while the FTSE SmallCap index rose 6.2%, making for returns in 2020 of -6.4% and 4.5% respectively. The FTSE AIM All-Share gained 10.1%. The FTSE All-Share return including income was 3.9% in the month to make -9.8% for the year.

In the US the S&P 500 index rose by 3.7% in December to give a return over the course of 2020 of 16.3%. The technology-oriented NASDAQ index rose 5.7% and was up a striking 43.6% over the year, while the Dow Jones Industrial index lagged with a gain of 3.3% in the month and 7.3% in the year. Smaller companies, as represented by the Russell 2000 index, outperformed again in the month with a rise of 8.6% to make 18.4% for the year.

In Europe the FTSE Eurofirst 300 rose by 2.2% in the month, with the German DAX doing best of the major markets doing well, while the return for the year was still negative at -5.4%. The Euromoney index of smaller companies gained 5.6% in December and 16.6% in 2020. In Japan the Nikkei 225 index rose 3.8% in the month and was 16% higher for the year.

The MSCI Emerging Markets index in US$ saw a gain of 7.2% in the period, when markets in Brazil, India and Korea were strong, and the return for the year was 15.8%. The MSCI Frontier Markets index was up 5.6% in December, with Vietnam up by 10%, if still 2.5% lower for the year.

For bond markets the UK 10-year gilt yield fell from 0.31% to end the month at 0.2%, which compared to a level of 0.82% at the start of 2020. The total return for the FTSE Gilts All Stocks index was 1.6% for the month and 8.3% for the year. In the US the 10-year yield moved up from 0.84% to 0.91%, and there was a negative return from 7-10 year US Treasuries, while in Europe the 10-year bund in Germany was unchanged at -0.57%. Over the year longer-dated and index-linked debt fared best.

Sterling strengthened against the US$ by 2.6% over the month to close at a rate of $1.37:£ while against the euro Sterling was marginally higher, up 0.1% at €1.12:£ if 5% weaker for the year.

The price of gold rose in the month with other assets and it closed up 6.8% at $1898 per troy ounce, a quarter higher over the year. The price of Brent oil rallied further and gained 8.5% over the month to end at $51 per barrel. The main metal prices were notably higher, aluminium aside, as were the major agricultural commodities. The Vix index, as a gauge of expected volatility in the US market, rose by a tenth over the month. The price of bitcoins surged.

Julian Cooke – Director **4th January 2021**

Vintage Asset Management
7a Wyndham Place, London W1H 1PN
Tel.: 020 7989 3110
Email: info@vintageassetmanagement.co.uk
www.vintageassetmanagement.co.uk