

Market Update

11th January 2021



The first week of January saw strong gains across the board for equity markets in the face of renewed lockdowns and civil unrest in the United States.

UK large cap equities rose by 6.4%, ahead of other indices as undervalued regions and sectors made strong gains particularly in the first half of the week, driven by vaccine optimism and political events in the US. Asian and Emerging Market equities also performed well with returns of 5.8% and 5.4% in Pound terms respectively, while European (4.0%), Japanese (2.9%) and US equities (2.5%) were further back.

Beneath the surface of index-level returns, cheaper 'value' equities rose ahead of their more richly valued 'growth' counterparts, with differentials particularly evident in developed markets. In Europe for example, the MSCI Europe Growth index rose by 2.7% while the equivalent Value index rose by 5.2%, while in the US, the Russell 1000 Value index outperformed the Growth index by 1.67%.

There has been something of a nascent rotation towards value since November 2020's vaccine announcements, with these areas of the market generally comprising those sectors and companies that have suffered unduly due to Covid restrictions. With improved forward-looking prospects for the global economy, these same areas could reasonably be expected to now outperform, though the journey will not be without volatility.

Exhibiting the usual relationship to positive equity returns, government bond yields generally rose, meaning prices fell, while corporate bonds were less affected. UK government bonds saw sharp losses, with Gilts falling by 1.6% and inflation-linked Gilts by 3.7%, with US Treasuries also losing value. After initially rising during the week, both gold and silver fell precipitously at the end of the week, ending down 2.6% and 6.2% respectively.

As mentioned last week, worsening news in the short-term appears to be being outweighed by more positive medium-term vaccine news – for the time being at least. England has been placed in another lockdown amidst warnings of overwhelmed hospitals, with the other home nations doing the same to a greater or lesser extent. But markets appear more relaxed about this in light of the Health Secretary's statement over the weekend that more than 200,000 are receiving a vaccine every day and that the Government is on track to reach its target of two million vaccinations a week.

One third of over-80s in the UK have been inoculated, and in the week ahead mass vaccination centres will open, including at Epsom racecourse and Ashton Gate stadium in Bristol, with programmes expected eventually to run 24 hours a day once supply can meet demand. Again, we see vaccine roll-out as the key risk for this year, simply in its intrinsic links with the loosening of restrictions and a return to normality; so far global optimism seems to be just about justified.

Away from Covid, events in the US dominated headlines. On Wednesday it became clear that the Democrats had won control of the Senate for the first time in six years with victories in two runoff elections in Georgia – a state that has not sent a new Democratic senator to Washington for two decades.

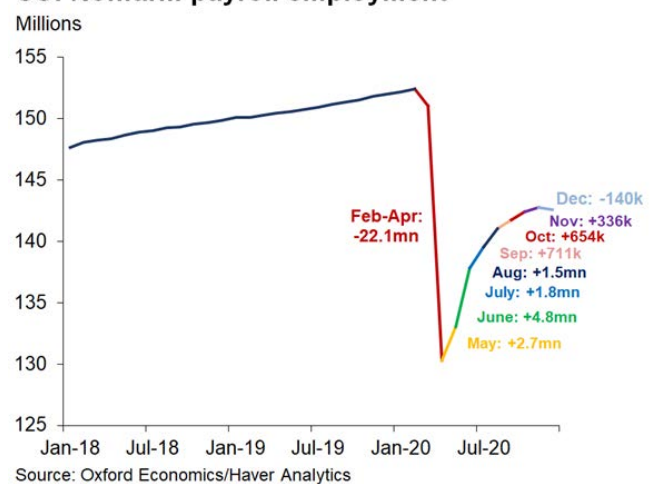
These victories mean that there is a 50-50 split between Republicans and Democrats in the Senate, with incoming Vice President Kamala Harris able to cast tie-breaking votes and confer control of the chamber.

While this marginal level of control will still limit Democrats' ability to deliver on the most ambitious items of their policy agenda, it becomes significantly easier in theory for them to pass certain spending, tax and debt limit bills with a simple majority.

Accompanying these historic results were extraordinary scenes in Washington D.C. where a pro-Trump mob were able to breach barricades set up by police and enter the Capitol building, disrupting the certification of President-Elect Joe Biden's election, and forcing the evacuation of Vice President Mike Pence and other lawmakers. Control was eventually regained by the National Guard, allowing Biden to be formally recognised by Congress as the next US President, with Donald Trump later being permanently banned by Twitter and indefinitely suspended by Facebook. Joe Biden will be inaugurated on 20th January, ending the period of tumult that Donald Trump has presided over, and ushering in what we hope will be a much-needed period of calmer politics.

Even as Joe Biden laid out plans for economic stimulus in his first 100 days, US jobs data was released on Friday that showed a net loss of 140,000 jobs in December as per the chart below. Job losses were felt particularly in the services sector as a result of lockdowns, all of which means that just 56% of jobs lost since February 2020 have been regained – around 9.8 million remain unemployed relative to that point in time:

US: Nonfarm payroll employment



These data point towards the other main risk facing markets in 2021; that of untimely stimulus withdrawal that snuffs out the anticipated economic rebound. For now, despite delays in the likes of the US, there is still near-universal agreement among governments and central banks over the need to maintain fiscal and monetary support until recoveries are entrenched, but a fraying of this consensus would pose a significant threat to more upbeat forecasts we see coming into 2021.

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