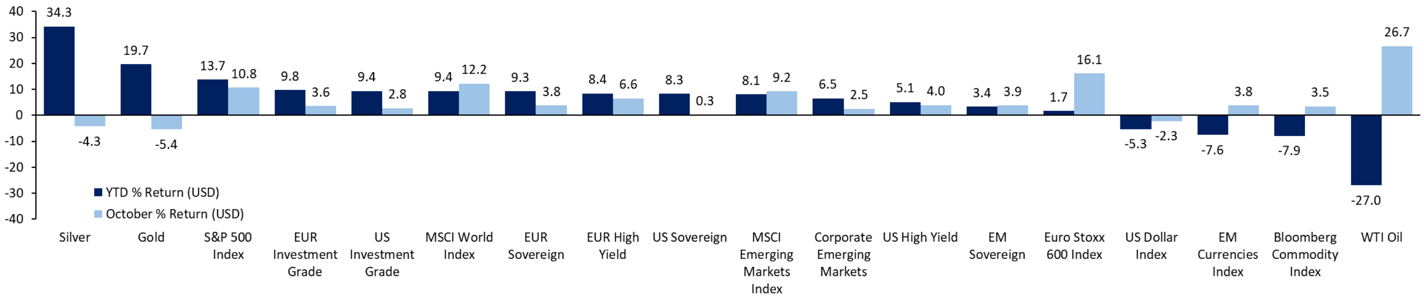
December 2, 2020

Monthly Market Wrap, November 2020

The US election outcome paved the way for a “grand bargain” raise in spending while making Trump’s corporate tax cuts permanent. Combined with a series of positive news on vaccine efficacy, financial markets went on to experience one of their best rally ever. The reflation trade anchored in the mind of many, despite globally rising virus cases, as central bank statements remain relatively dovish on the near future and governments are pressed to support local economies.

Chart 1. Asset Class Return YTD (USD Base)



Equities

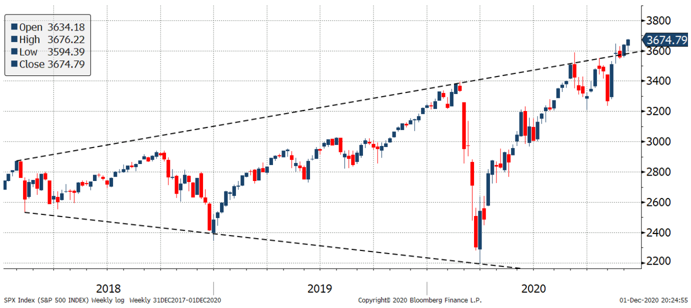
Financial markets welcomed positive vaccine news with open arms. The reflation trade was alive and well with this year’s biggest losers gaining the most last month. Global value stocks were up 15.1%, outperforming growth stocks by 4.2%. The MSCI World Index was up 12.8%, and now stands at +11.2% YTD.

In the US, the S&P 500 was up 11.0% and broke out of a two-year diverging pattern **(Chart 2)**. Yet, small caps was where the action was with the Russel 2000 up a staggering 18.4%, outperforming large caps by 7.4%. On a sector basis, cyclicals and value were the clear winners. Energy was up 26.6%, financials 16.8%, industrials 15.6%, and materials up 12.2%. In comparison, tech stocks performed in-line with the market (c.+11.3%) meanwhile defensive sectors such as utilities and staples were up 0.3% and 9.5%, respectively.

European equities outperformed their US counterparts rather significantly with the EuroStoxx 600 up 13.8% **(Chart 3)**. Performance was partly driven by strong regional returns in Spain (c.+25.3%), France (c.+20.1%), and Germany (c.+15%). Sector exposure was certainly another driver as per the region’s intrinsic value skew. Top performers were Oil & Gas (c.+31.2%), banks (c.+30.2%), insurance (c.+24.9%), and autos (c.+21.9%). Defensive sectors paled in comparison with healthcare and utilities up 6.2% and 10.8%, respectfully **(Chart 4)**.

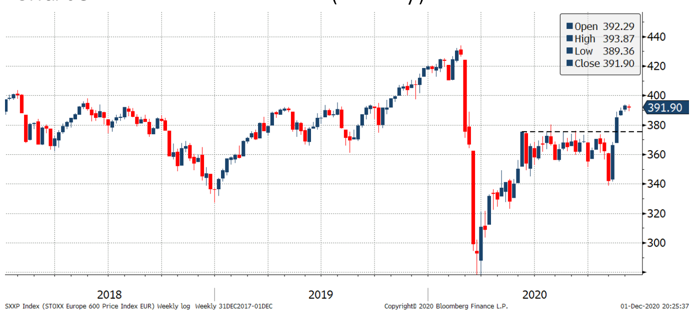
As risk assets continued their course higher, market volatility continued to dampen with the VIX Index now at 20.8%. However, single stock volatility still offers opportunities for yield enhancing strategies, but remains too expensive to offer buying opportunities in capital protection strategies.

Chart 2. S&P 500 Index (Weekly)



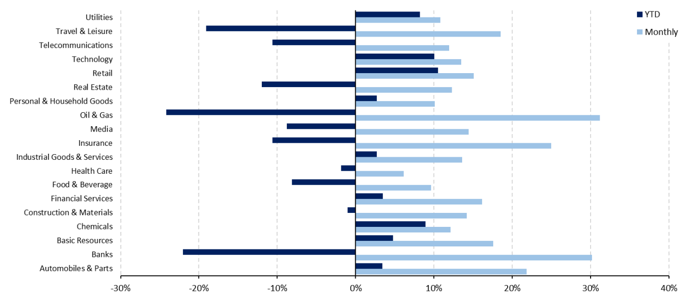
Source. Bloomberg, MAM Research

Chart 3. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 4. European Sector YTD vs. November Returns



Source. Bloomberg, MAM Research

Fixed Income

Yields were relatively unchanged last month with fixed income markets digesting a double edged news flow differently than its equity counterpart. In the US, yields contracted with longer tenors dropping more than the short tail of the curve, albeit very small basis point changes **(Chart 5)**. In fact, the yield curve flattened just a bit with the 2-10 and 5-30 Years spreads respectively down -3bps and -7bps. Short tenors were actually flat, so most of the "spread contraction" was coming from further out in the curve. Short-term headwinds coming from DC with the government failing to reach an agreement on the next round of fiscal stimulus could have reduced medium term inflation expectations (main drive of long-term rates today), despite the Fed remaining relatively dovish in its tone. However, forward break-even markets continue to expect long-term inflation to rise **(Chart 6)** with the decade long trend breakout observed earlier this year still very much valid.

In Europe, despite the new round of lockdowns, the picture was relatively inverted. The central bank continues to remain dovish in its statements, Brexit talks are well underway now, and as the European Union works to sign off on its new budget, local governments remain accommodative to their economies through supportive fiscal policies. The regional/sector rotation seen in mid-November also accentuated such move.

Currencies

In the FX market, November was off to a relatively stable start. Investors had to wait up until the outcome of the US election was a little clearer for markets to gain directionality. Prospects of expansionary fiscal policies, persisting tax cuts, and dovish central bank comments added pressures to the dollar **(Chart 7)**. The local currency broke out of its consolidation range to resume its decline with the downtrend established since its peak in mid-March still upholding.

In comparison, the Euro **(Chart 8)** broke out of its consolidation range as expected to break above its 1.20 USD/EUR mark for the first time since 2018 earlier this week. The move was further supported by rising sovereign rates, thus increasing the currency's relative carry attractiveness against the dollar.

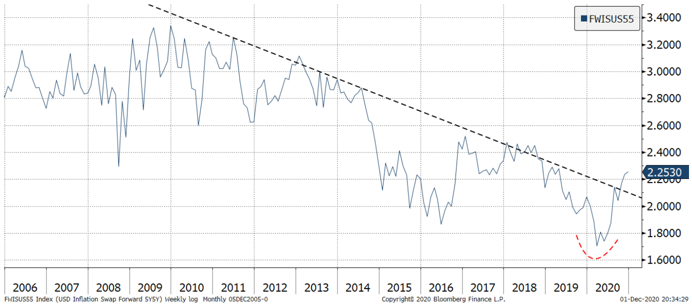
Then, as the uncertainty surrounding Brexit dampens and the local economy seems set to progressively recover from the crisis, the British Pound also broke out of its consolidation pattern to resume its gains against the greenback **(Chart 9)**. While the uptrend support remains intact, strong headwinds are still present with a double-top resistance level near 1.35.

Elsewhere, the Japanese Yen was relatively flat against the dollar with the safe-haven currency down -33bps last month.

Chart 5. US 10-Yr Treasury Bonds (Weekly)

Source. Bloomberg, MAM Research

Chart 6. US 5Yr5Yr Forward Breakeven Rate (Monthly)



Source. Bloomberg, MAM Research

Chart 7. US Dollar Index (Weekly)

Source. Bloomberg, MAM Research

Chart 8. USD/Euro Spot Exchange Rate (Weekly)

Source. Bloomberg, MAM Research

Chart 9. USD/GBP Spot Exchange Rate (Weekly)

Source. Bloomberg, MAM Research

Commodities

Interesting developments occurred in the commodity complex. Gold **(Chart 10)** and Silver **(Chart 11)** were both put under pressure per their precious metals characteristics as investors took a more risk-on approach and re-allocated capital to risk-assets with both commodities re-testing previous levels.

Industrial metals performed relatively well, up 10.5%, driving most of the gains in the broad commodity space. Early data suggest most of gains were driven by supply-side bottlenecks as countries and producers attempt to replenish inventories with the global economy setting itself ready for a reopening on vaccine hopes. In industrials, copper **(Chart 12)** was up 12.2%, zinc 10.4%, and aluminium 10.2%. Interestingly, part of the rally in those industrial commodities was driven by the hype around the green transition (i.e. EVs, Solar Panels, Wind Farms, etc.).

The next best performing sector was agriculture commodities, up 5.2%. The gains were driven by soybean (c.+10.6%) and coffee (c.15.6%). While some still have room to outperform due to poor weather outlooks, others will be contained to current prices as higher stocks are carried into next year.

Energies had a mixed performance, up 3.5%. Major gains in oil as the world gets ready to re-open (c.+27%, brent) were offset by a decline in gas prices due to a warmer winter start (c.-14%).

Emerging Markets

The MSCI Emerging Market Index was up 9.3% in November **(Chart 13)**, thus underperforming global equities by c.-3.5%. However, most of the underperformance can be attributed to lagging Chinese equities, up 2.8%.

Latin America was the EM place to be last month with Mexican equities up 20.2% and Brazilian equities up 23.7%. Then, there were also some very strong performers among South East Asian equities with notably Thailand and Indonesia up 24.9% and 19.0%, respectively. Key regional equities continue to trade at a steep discount on a series of bases as discussed in our MAM Insight No. 8 published two weeks ago.

EM currencies were up 3.7% last month, breaking out of their consolidation pattern **(Chart 14)**. Yet, quite interestingly, the strong performance of local currencies diverted from that of the top performing equities. Mexican Peso and Brazilian Real were respectively down -4.7% and -6.7%. Thus, highlighting the strength of the equity rally and the legroom left open for an appreciation in the value of the USD-denominated investment vehicles currently providing portfolios exposure to the regions. These two currencies continue to trade at steep discounts on a relative exchange rate basis (-1.5 to -2.0 SD).

Chart 10. Gold Spot Prices (Monthly)

Source. Bloomberg, MAM Research

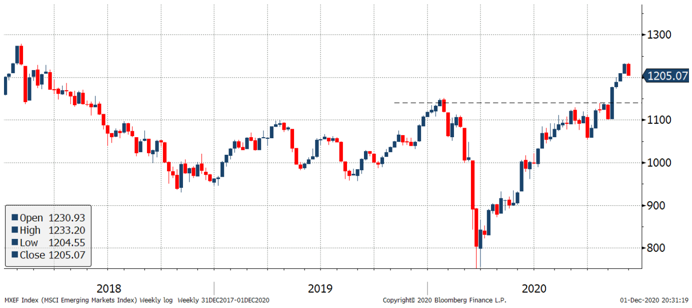
Chart 11. Silver Spot Prices (Weekly)

Source. Bloomberg, MAM Research

Chart 12. Copper Front Month Rolling Futures (Weekly)

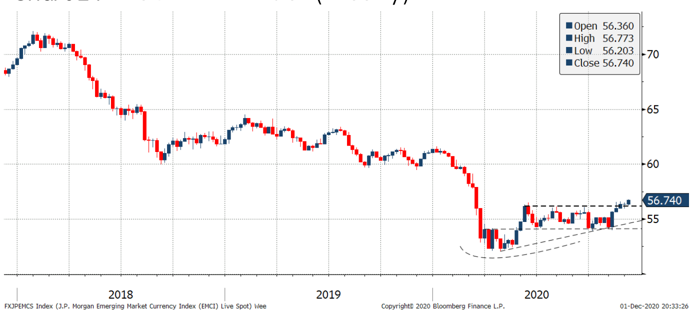
Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)



Source. Bloomberg, MAM Research

Chart 14. MSCI EM FX Index (Weekly)



Source. Bloomberg, MAM Research