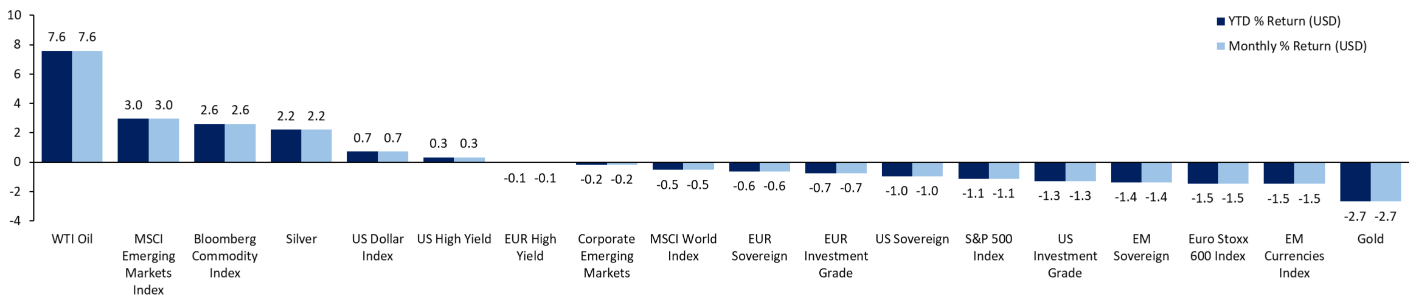
February 1, 2021

Monthly Market Wrap, January 2021

Recognizing last year was already quite eventful, this year sure is kicking off with a bang. Within the first week of 2021, Capitol Hill was taken over by a mob. A week later, the 46th President of the United States was sworn into and immediately got to work by signing a series of executive orders rolling back on Trump-era policies. In the meantime, vaccines begun to make their way to the population, but the spread of the virus meant governments across the globe were forced to reintroduce social and travel restrictions. SPACs continued to make the headlines with an unprecedented number of companies filing for IPO. Then, Reddit happened. In an echo to the "Occupy Wall Street" movement, albeit with a more digital touch, an army of retail investors were originally behind a buying frenzy that sent some of the most shorted stocks roaring. Needless to say, markets had plenty to digest and the year has only just begun.

Chart 1. Asset Class Return YTD (USD Base)



Equities

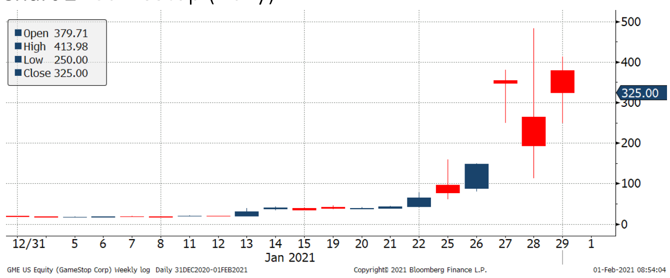
Although equity market headlines have been increasingly focused on the Reddit fuelled buying frenzy on stocks such as GameStop **(Chart 2)** and AMC, the broader market picture is not as positive. Global equities were down 1.0%.

In the United States, we observed a strong disparity in performance between large and small caps. The S&P 500 Index **(Chart 3)** was down 1.0% meanwhile the Nasdaq was rather flat at +0.3%. Small caps were a strong outperformer with the Russell 2000 index up 5.0%. However, most of said relative outperformance can be attributed to some single stocks benefiting from the retail frenzy (i.e. GameStop, Bed Bath & Beyond, Blackberry, AMC). Energy (c.+3.6%) toped the sectors as oil gained.

In Europe, the virus continued to make its way through the continent with the number of infections struggling to inflect therefore prompting governments to toughen social and travel restrictions. The EuroStoxx 600 **(Chart 4)** was down 0.75% with Spain, France, and Italy respectively lagging at -3.7%, -2.6%, and -2.1%.

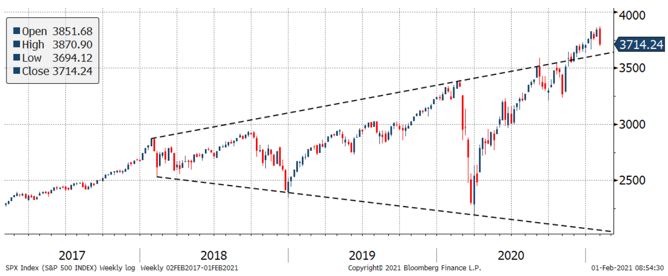
As risk asset prices continued to fluctuate throughout the month, market volatility increased with the VIX index rising to 33.1, a 3.3% increase in for the month of January.

Chart 2. GameStop (Daily)



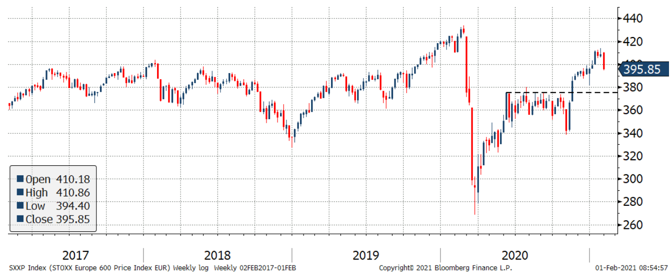
Source. Bloomberg, MAM Research

Chart 3. S&P 500 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Fixed Income

Yields continued to adjust to higher inflation expectations. In the US, the yield curve edged slightly higher last month with spreads on the 2-10 and 5-30 respectively rising by 16.2bps and 12.5bps. Almost the entirety of the move was once again driven by longer tenors. The US 10-Year yields rose 15.2bps **(Chart 5)** while 30-Year yields closed 18.4bps higher. Shorter tenors were relatively flat with 2-Year yields down 1.2bps to 0.11%.

Despite headwinds from recent surges in virus cases, the higher inflation view for 2021 remains highly consensual. The move higher on the US 5-year forward breakeven is supportive of that **(Chart 6)**. That inflationary pressure can be found in many goods and asset prices, but it has yet to find its way to long-term interest rates in a more meaningful way. It is only a matter of time until it does, and that could happen quickly.

In Europe, despite renewed restrictive measures, the picture was quite similar. German 10 and 30-Year yields were up 5.1bps and 8.1bps. UK 10 and 30-Year yields were up 13bps and 14.7bps. Shorter tenors were up in the low single digits.

Currencies

In the FX market, January marked a temporary break in the dollar decline with the currency rising 0.72% **(Chart 7)**. Nonetheless, it remains anchored near the 90.0 level that marked the bottom in the dollar decline back in 2017-18. However, structural factors suggest there is still room for the currency to decline in the future and break below said floor. We should see current gains more as a temporary strength rather than long-term trend change.

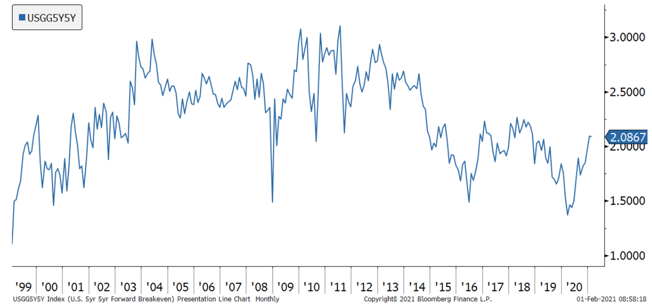
In comparison, the Euro **(Chart 8)** pulled back a bit to 1.21 and could see further support near the 1.20 level. The currency also benefits from relatively higher yields in the region, which dampened the negative impact of rising yields in the US. Limiting carry trades driven weakness.

Elsewhere, the UK continues to progress on the vaccine rollout. Despite strict social and travel restrictions in the region, the currency continue to appreciate supported by higher long term yield and a technical wedge breakout **(Chart 9)**. The Japanese Yen appreciated a little bit further by 1.40% to 104.7 vs. USD.

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

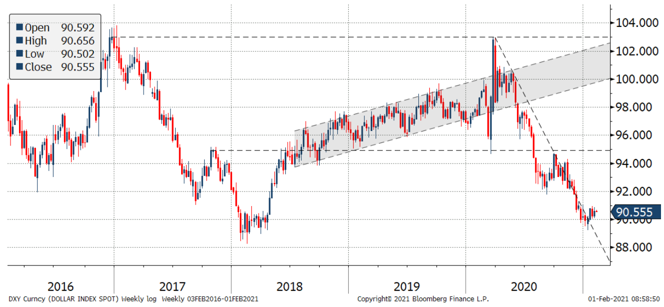
Source. Bloomberg, MAM Research

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



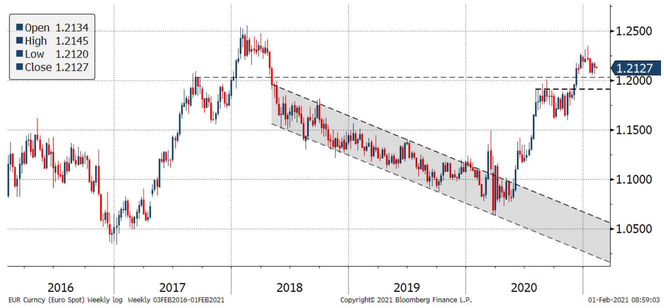
Source. Bloomberg, MAM Research

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

Commodities performed admirably last month with the Bloomberg Commodity Index up 2.6% driven by a strong performance in both agriculture and energy. Precious metals lagged with Gold (-2.7%) weighting on the index **(Chart 10)**. Silver became the new target of Reddit retail investors in the last days of January with the metal erasing its intra-month losses to close up 2.2% **(Chart 11)**.

The best performing sector was energy, up 5.5%, with strong gains across the board including oil (+7.6%).

Agriculture commodities were the second best sector, up 4.5%. Gains were mostly attributed to corn (+13.0%), and soybean (4.2%) with the former strongly benefited from both a large scale Chinese buying and the smallest US stockpile in seven years. The Asian nation is scooping up American crops to feed a hog herd that's recovering from a deadly pig disease faster than most traders expected.

Industrial metals (+0.02%) lagged with nearly flat returns in January. Copper (+1.1%) was one of the rare positive contributor to performance as Aluminium and Zinc drop by 0.3% and 6.3%, respectively.

Emerging Markets

The MSCI Emerging Market Index was up 3.1% last month **(Chart 13)**, thus outperforming global equities by c.4.1%.

A large portion of the outsized returns can be attributed to strong performance among Chinese (7.4%), Pakistanis (4.7%), and South Korean (1.2%) equities. However, other regions saw strong underperformance: Mexico (-4.2%), India (-2.3%), Brazil (-7.8%), and Philippines (-8.0%). Yet, some of these regions continue to be among the cheapest on both an absolute and relative price-to-book basis.

The EM FX index **(Chart 14)** was down 1.5%, suffering from the headwinds associated with a stronger USD and economic weakness in some regions. The South African Rand, Brazilian Real, and Mexican Peso were among the worst performing currencies among EMs, respectively down 3.2%, 5.3%, and 3.3% against the dollar in January.

Arguably, the poor currency performance dragged on equities and possibly drove some outflows in the regions. The current state of local economies and the lasting impact from the pandemic (incl. new virus strains) only accentuated the short-term weakness. Continue to look for opportunities as things improve on a vaccine rollout.

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