CIO OFFICE MORNING MARKET WRAP – Sunday 3rd January 2021. ALSO AVAILABLE ON ALEXA.

Happy New Year from the CIO team.

We start 2021 with hopes of an economic recovery, vaccines to deal with the virus and unprecedented fiscal and monetary policy support. December closed with broad gains across most asset classes supported by the much-negotiated US stimulus package, lower at $600 vs the $2000 direct payment checks sought, Brexit negotiations concluded and a demonstrable global vaccine rollout with over 12 million people vaccinated already. Whilst our outlook for most asset classes is positive, we enter 2021 with some concerns. The health crisis has taken its toll on economic growth with global GDP estimated to fall by 5% in 2020. Global COVID cases have crossed 84.5 million with another 500 million estimated as unrecorded. U.S. infections have approached 20 million, almost twice as many as the second-worst hit country India. In the UK, the new variant of the coronavirus has led to increased lockdowns. Funding of the stimulus packages has raised sovereign debt and deficit levels. While the zero-tariff, zero-quota accord is a relief for British companies, it only marks the next stage in the evolution of the Brexit process—and potentially a difficult one. Tech regulation is now a global concern.

Cyber security issues are also on most government's agenda as the increased use of the internet and accelerated digital migration raise susceptibility.

2020 has been an unusual year with safe haven positioning in gold, the Yen and US Treasuries along with a strong performance from fixed income and equities. A calm January was followed by some volatility in February with the COVID 19 pandemic taking centre stage first in China and then globally. March saw severe lockdowns with the corresponding effect on the service sector, particularly hospitality, tourism and airline travel. On March 9, oil crashed by 30% within seconds — the biggest drop since the Gulf war in 1991 and the S&P 500 suffered its worst day since the financial crisis, plunging 7.6% and triggering circuit breakers and saw an even bigger move on 16th March with the Index losing 12%. The extreme March sell off led to US equities losing 25% in 3 weeks. All global markets were in correction territory and global equities in Feb and March saw many down days of over 3%.

Central banks came to the rescue and risk assets quickly recovered and 2020 ended well for most asset classes with many global equity indices making records. Gold closed the year just short of $1900 gaining 25% in 2020, seeing gyrations from a low of $1472 (it sold off along with the broader market in March) to a high of $2061 in August. The 10 year US treasury yield settled at 0.91%, a percent below where it began the year at 1.91%, though it too had a wide range, hitting 0.51% in August. Taking into account inflation the real yield is at around -1%. Corporate bond yields hit record lows. The Bloomberg Barclays Global bond Index had total returns of 9%. 80% of the world's investment grade debt now yields less than 1%. Speculative mania sprang up everywhere from Bitcoin to IPOs. The dollar weakened with the Euro at 1.22, Yen at 103.2 and the GBP at 1.37, all gaining vs the US Dollar. EM currencies are mixed with the INR losing a couple of percent last year. Oil recovered from its extreme March sell off with Brent closing the year at $51.8, just 22% below levels from a year ago. Oil demand was severely affected by the travel restrictions and slowdown in economic activity.

Global equities are up 16.2% in 2020, with most major equity indices positive, the exception being the UK. The Hang Seng Index ended the year flat though China tech companies somewhat recovered from the crackdown from China's regulators. EM stocks +18.3% outpaced DM +15.9% and this supports our recent increased overweight EM positioning. In December EM equities gained 7.4% with India up 10% aided by a weaker Dollar and strong inflows. China led global equity returns consistently as the first economy to return to normal with the MSCI China gaining 29.5% in 2020. The GCC ended flat for the year with the Abu Dhabi and KSA indices in the green and the Dubai index slightly negative at -5%. For the full year, US equity indices registered solid price returns, led by the Nasdaq Composite +45% and followed by the S&P 500 +18.4%. The Eurozone and Japan also had strong 2020 performances +14.5% and 11% respectively. We expect equities continue to gain as economies spring back to pre COVID levels and supported by low interest rates. Earnings growth is expected to be strong and profits back to 2019 levels, which should counteract the current elevated valuations.

Leading global sectors last year were Technology +46%, Consumer Discretionary +37%, Communication Services +24% and Materials +21%. Laggards (and the only with negative returns) are Energy, Real Estate and Financials. We recommend staying invested in tech but selectively and keeping an eye on the future trends i.e. 5G and EVs. Tesla entered the S&P 500 with a market cap higher than the top 7 auto manufacturers combined, as the shift to EVs accelerated. Apple added close to $ 1 trillion in market cap in 2020, closely followed by Amazon. 5G stocks were also spectacular gainers as the need for faster connectivity accelerated. The NYFANG index doubled. This has raised concerns right across the world from regulatory authorities in the US, Europe and China on not only their monopolistic hold in search, ecommerce and payments, but the data the social media companies have from their billions of subscribers. As a factor Growth +34.0% outperformed Value -1.2%. However, November US election results with a Democratic Biden win has buoyed investor sentiment with a vision of less fractious US global relations and a rotation into the underperforming cyclical and value stocks. This was in sync with the bond market and with hopes of a global recovery both High Yield and EM Debt were strong performers the last 2 months and our Overweight stance on these is paying off. We are underweight DM government bonds. As we see a cyclical pick up and EM countries with demonstrably higher economic growth and a quicker return to pre COVID level demand, we would continue to add to both EM equities and bonds.

December saw a number of vaccine rollouts starting with Pfizer- BioNTech and then Moderna, both with the mRNA methodology. The World Health Organization issued an emergency-use designation for Pfizer Inc.'s shot, a move that could allow more countries to import and distribute the vaccine. The U.K. approved emergency use authorization for the Oxford-AstraZeneca vaccine and first rounds are expected to begin distribution next week. Anti-viral drugs have however not proven the same efficacy.

Whilst we begin 2021 at elevated levels for most markets, the economic recovery should aid further upside with a caveat of being selective and diversified. Central bank and government support provide a strong backstop. We will of course see volatility, which is a norm even when there are no crises.

Stay safe.

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