

Investment Review – USD



Fourth quarter 2020

Against a challenging macroeconomic backdrop, global stocks concluded the year at record highs, delivering double-digit returns. Most notably, the US stock market gained +16.3% in 2020, while the tech-heavy Nasdaq index posted its best annual performance since 2009, up +43.6%.

During the fourth quarter, global equities returned +12.8% in local currency terms, or +14.7% in USD terms, while US treasuries fell modestly, -0.9% (all maturities). A vaccine breakthrough in the fourth quarter, alongside supportive policy and subsiding geopolitical risks, were key drivers of market performance. For the full year, global equities returned +16.3% (in USD terms) and global government bonds +5.6%.

Positive investor sentiment continued in the fourth quarter, buoyed by the approval and initial distribution of vaccine treatments across the US, UK and, to a lesser extent, Europe. Infection rates have risen once again – more dramatically than before – with a new and more contagious variant of the virus having emerged in the UK. Governments continued to reintroduce stricter suppressive measures – most European countries re-entered lockdowns, while some US states implemented local restrictions. Despite this, stock markets continued to look ‘across the valley’: strong returns fostered a flurry of new issuance coming to market in the fourth quarter – six times the amount seen in the first three months of the year – rounding off a record-breaking year. Despite echoes of the dot-com bubble, not all regions and sectors appeared equally expensive; the fourth quarter saw a cyclical rotation away from frothier growth names to value-orientated stocks as confidence in the economic recovery took hold.

For the most part, economic indicators remained robust. Survey data and retail spending numbers suggest that the second-wave-induced setback in the fourth quarter might not be as dramatic as feared; retail spending in the UK and the US has softened but remains above pre-pandemic

levels, while in Europe retail sales have grown. Labour market data continued to strengthen in the US, with the unemployment rate falling from 8.4% to 6.7% over the quarter. Comparable data in the UK and Europe remains muted with many job retention schemes still in place. Surveys of business sentiment – the Purchasing Managers Indices – for major economies mostly continued to improve in the fourth quarter. Most notably, the forward-looking component of US ISM manufacturing survey – a long-term gauge of wider US economic health – touched a 17-year high in the final month of the year. Elsewhere, China’s recovery continued to outpace other major economies in the fourth quarter and is estimated to be the only major economy to have grown in 2020.

Survey data and retail spending numbers suggest that the second-wave-induced setback in the fourth quarter might not be as dramatic as feared.

On the policy front, both government and central bank action remained supportive. After months of negotiation, Congress approved a further \$900bn stimulus package as part of a wider \$2.3trn spending bill, including direct payments to households and additional local government funding. While keeping rates unchanged, the Fed has indicated that asset purchases would remain at their current pace for the time being. The Bank of England and ECB have also kept rates unchanged but boosted their asset purchase programmes: the Bank of England expanded its programme by an additional £150bn in

November, and the ECB by €500bn in December while extending its programme through to the end of March 2022. In addition to this, the €1.8trn EU seven-year budget and recovery fund was finally approved after a compromise led to Hungary and Poland lifting their objections to the disbursement of the budget.

Geopolitical events supported risk assets in the fourth quarter. Despite Trump's ongoing attempts to delegitimise the election result, November saw the White House turn blue in a decisive win for Joe Biden; Congress is likely to move in the same direction, but this has yet to be officially confirmed. In Europe, a lengthy and last-minute Trade and Co-operation Agreement was signed, concluding Brexit discussions (for now at least) with the overall outcome – a free trade agreement for trade in goods – a far better result than the blanket 'WTO rules' alternative feared. Collective developments continued further afield, with China and 14 other countries – covering close to one third of global GDP – signing the Regional Comprehensive Economic Partnership (RCEP), creating the world's largest trading bloc.

Market review

In equities, strong fourth quarter performance was evident across most major markets. In local currency terms, Latin America (+23.9%), emerging Asia (+16.2%) and Pacific ex. Japan (+14.3%) were the standout performers. Europe (excluding the UK) and emerging Europe were the relative underperformers returning +10.2% and +10.3% respectively.

In terms of sectors, the fourth quarter saw a cyclical shift away from growth stocks to traditional value sectors, with Energy (+23.6%) and Financials (+21.3%) outperforming, while Consumer Staples (+4.3%), Healthcare (+5.5%) and Real Estate (+7.3%) underperformed.

The fourth quarter saw a cyclical shift away from growth stocks to traditional value sectors, with Energy (+23.6%) and Financials (+21.3%) outperforming.

In fixed income, global government bonds remained unchanged (unhedged, local). The US benchmark 10-year yield rose to a five-month high – almost breaching 1% – but ended the quarter at just over 0.91%. In Europe, yields were more stable, and peripheral spreads continued to compress; Spain issued its first negative yielding 10-year note, while Portugal's benchmark 10-year yield turned negative. Meanwhile, most breakeven inflation rates continued to nudge higher. In credit, high yield bonds outperformed investment grade (+6.8% vs +2.8%, respectively), while spreads continued to tighten in the quarter.

In currencies, sterling was the standout performer (+1.3% on a trade-weighted basis), as Brexit risks subsided following the completion of a trade deal between Europe and the UK. Meanwhile the US dollar (-4.5%) was the weakest major currency in the quarter.

Elsewhere, oil benefited from optimism around vaccine distributions and ongoing policy support to post seven consecutive weekly climbs, ending the quarter up strongly (Brent +26.5%). Meanwhile, platinum and silver were the precious metal outperformers (+20.0% and +13.6% respectively), while bitcoin surged further and ended the quarter at record highs of \$34,000.

Data sources: Bloomberg, MSCI, JPM, Rothschild & Co

Notes

At Rothschild & Co Wealth Management we offer an objective long-term perspective on investing, structuring and safeguarding assets, to preserve and grow our clients' wealth.

We provide a comprehensive range of services to some of the world's wealthiest and most successful families, entrepreneurs, foundations and charities.

In an environment where short-term thinking often dominates, our long-term perspective sets us apart. We believe preservation first is the right approach to managing wealth.

Dusseldorf

Heinrich-Heine-Allee 12
40213 Dusseldorf
Germany
+49 211 8632 17-0

Frankfurt

Börsenstraße 2 – 4
60313 Frankfurt am Main
Germany
+49 69 40 80 260

Geneva

Rue de la Corraterie 6
1204 Geneva
Switzerland
+41 22 818 59 00

Guernsey

St. Julian's Court
St Julian's Avenue
St. Peter Port
Guernsey GY1 3BP
Channel Islands
+44 1481 705194

London

New Court
St Swithin's Lane
London EC4N 8AL
United Kingdom
+44 20 7280 5000

Manchester

82 King Street
Manchester M2 4WQ
United Kingdom
+44 161 827 3800

Milan

Via Agnello 5
20121 Milan
Italy
+39 02 7244 31

Zurich

Zollikerstrasse 181
8034 Zurich
Switzerland
+41 44 384 7111

Important information

This document is strictly confidential and produced by Rothschild & Co for information purposes only and for the sole use of the recipient. Save as specifically agreed in writing by Rothschild & Co, this document must not be copied, reproduced, distributed or passed, in whole or part, to any other person. This document does not constitute a personal recommendation or an offer or invitation to buy or sell securities or any other banking or investment product. Nothing in this document constitutes legal, accounting or tax advice.

The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance should not be taken as a guide to future performance. Investing for return involves the acceptance of risk: performance aspirations are not and cannot be guaranteed. Should you change your outlook concerning your investment objectives and / or your risk and return tolerance(s), please contact your client adviser. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down. Income may be produced at the expense of capital returns. Portfolio returns will be considered on a "total return" basis meaning returns are derived from both capital appreciation or depreciation as reflected in the prices of The Portfolio's investments and from income received from them by way of dividends and coupons. Holdings in example or real discretionary portfolios shown herein are detailed for illustrative purposes only and are subject to change without notice. As with the rest of this document, they must not be considered as a solicitation or recommendation for separate investment.

Put options behave like insurance; we pay a premium for them and hope that they expire worthless, losing only the premium (very small deduction). They will make money if equity markets fall, thereby providing portfolio protection. Although the information and data herein are obtained from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made and, save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild & Co as to or in relation to the fairness, accuracy or completeness of this document or the information forming the basis of this document or for any reliance placed on this document by any person whatsoever. In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this document. Furthermore, all opinions and data used in this document are subject to change without prior notice.

This document is distributed in the UK by Rothschild & Co Wealth Management UK Limited. Law or other regulation may restrict the distribution of this document in certain jurisdictions. Accordingly, recipients of this document should inform themselves about and observe all applicable legal and regulatory requirements. For the avoidance of doubt, neither this document nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. References in this document to Rothschild & Co are to any of the various companies in the Rothschild & Co Continuation Holdings AG operating / trading under the name "Rothschild & Co" and not necessarily to any specific Rothschild & Co company. None of the Rothschild & Co companies outside the UK are authorised under the UK Financial Services and Markets Act 2000 and accordingly, in the event that services are provided by any of these companies, the protections provided by the UK regulatory system for private customers will not apply, nor will compensation be available under the UK Financial Services Compensation Scheme. If you have any questions on this document, The Portfolio or any elements of our services, please contact your client adviser.

The Rothschild & Co Group includes the following wealth management and trust businesses (amongst others): Rothschild & Co Wealth Management UK Limited. Registered in England No 04416252. Registered office: New Court, St Swithin's Lane, London, EC4N 8AL. Authorised and regulated by the Financial Conduct Authority. Rothschild & Co Bank International Limited. Registered Office: St Julian's Court, St Julian's Avenue, St Peter Port, Guernsey, GY1 3BP. Licensed and regulated by the Guernsey Financial Services Commission for the provision of Banking and Investment Services. Company number 1088. Rothschild & Co Bank AG. Registered Office: Zollikerstrasse 181, 8034 Zurich, Switzerland. Authorised and regulated by Eidgenössischen Finanzmarktaufsicht FINMA.

Source: MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.