Monthly Market Summary

December 2020

Summary: 'Risk on' mood boosted by further vaccine news

Global equities continued their upward march in December, returning +4.6% (in USD terms), alongside government bonds, +0.2% (in USD terms). Key events included:

- The enduring second wave and further vaccine approvals;
- Further US fiscal stimulus as brinkmanship gives way;
- Europe's recovery fund approved; Brexit negotiations conclude

Risk appetite remained buoyant in December as equities, led by emerging markets, rallied into the year-end. Credit spreads tightened even further, with the absolute level of investment grade yields touching all-time lows. Precious metals regained their poise, with gold rallying sharply alongside silver, and Bitcoin concluding a record-breaking year (+296%) and closing at $28,587. Oil moved back above $50/bl after OPEC+ signalled that it might delay a planned output hike in January.

US: President-elect, COVID stimulus, Record 2020 IPO issuance

Despite President Trump's ongoing efforts to delegitimise the outcome of the election, the Electoral College formally declared Joe Biden as President-elect in mid-December. Meanwhile, in the face of modest COVID suppression, the US economy retained momentum into December: the forward looking 'New Orders' component of the ISM manufacturing PMI printed at 67.9 – the highest level since 2003. That said, some labour market weakening was apparent with average weekly jobless claims increasing to 903k in December (from 757k). A bipartisan stimulus bill was agreed late in the month – the $900bn package (4.3% of GDP) includes $600 cash handouts and expanded unemployment benefits. Finally, alongside strong stock prices, US new issuance concluded the year on a strong note, with $67bn raised in the final quarter of the year as a number of firms came to the market for the first time (including DoorDash and Airbnb).

Europe: Manufacturing momentum, Veto avoided, Brexit finale?

As Europe grapples with the ongoing second wave, many service-orientated sectors have remained weak. In contrast, the manufacturing sector continues to strengthen, with Euro area and UK PMIs rising to 55.2 and 57.5, respectively. Hungary and Poland removed their objections to the upcoming EU budget, after reassurances from the European Commission on the so called 'rule of law' mechanism removed the final obstacle to the pending pandemic recovery fund. At the 11th hour, the UK and EU signed the 'Trade and Co-operation Agreement' (TCA), concluding three years of Brexit negotiations and removing an enduring tail risk. This arrangement creates a free trade area for goods, enabling tariff free trade to continue, but ends the free movement of people. Many unresolved areas – notably, trade in services – still need to be settled.

ROW: Japan's stimulus, China expands, Turkey hikes

Japan's recovery continued in December – the upbeat Tankan survey of large manufacturers (-10) was ahead of expectations. Facing a second wave and new restrictive measures, the Japanese Prime Minister announced a further $700bn (15% of GDP) fiscal package of direct spending, loan guarantees and green initiatives. Meanwhile China, which reported only 3,061 new COVID-19 cases in December (vs 6.4m in the US), is also growing at a respectable clip: the official manufacturing PMI (December: 53) has expanded for eight consecutive months. The Turkish lira was among the weakest currencies in 2020 (-19% vs USD) and this, alongside rapid credit growth, has led to double-digit domestic inflation. The Turkish central bank, under new leadership, responded by raising interest rates by 200bp, to 17%; the economy faces a challenging start to 2021.

Market summary *(total return in local currency)*

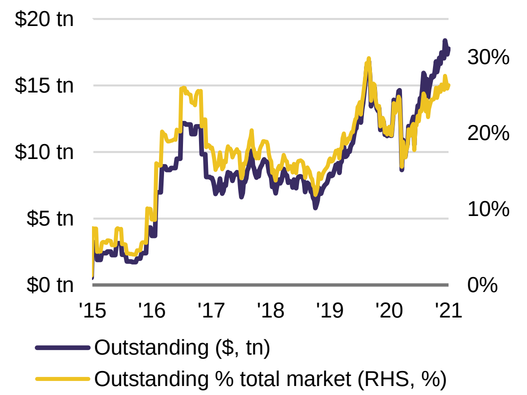
Fixed Income	***Yield***	***1M %***	***1 Yr %***
US 10 Yr	0.91%	-0.3%	10.0%
UK 10 Yr	0.20%	1.0%	5.4%
Swiss 10 Yr	-0.55%	0.2%	0.4%
German 10 Yr	-0.57%	-0.0%	2.7%
Global IG (hdg $)	1.34%	0.5%	8.3%
Global HY (hdg $)	4.47%	2.0%	5.7%

Equity Index	***Level***	***1M %***	***1 Yr %***
S&P 500	3,756	3.8%	18.4%
MSCI UK	10,785	3.0%	-13.2%
SMI	10,704	2.2%	4.3%
Eurostoxx 50	3,553	1.8%	-2.6%
Nikkei	27,444	3.9%	18.2%
Hang Seng	27,231	3.4%	-0.2%
MSCI World (lcl)	307	3.8%	14.2%
MSCI World ($)	328	4.6%	16.3%

Currencies (trade-weighted, nominal)			
US Dollar		-1.5%	-2.6%
Euro		1.0%	5.6%
Yen		0.0%	0.4%
Pound Sterling		0.3%	-1.8%
Swiss Franc		0.9%	3.0%
Chinese Yuan		-1.1%	1.0%

Other	***Level***		
VIX	22.8	10.6%	65.1%
Brent ($/b)	51.8	8.8%	-21.5%
Gold ($/oz)	1,894	6.5%	24.4%

Outstanding negative yielding debt



Source: Bloomberg, Rothschild & Co
Correct to 31/12/2020

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