

AVIVA INVESTORS

GLOBAL EQUITIES SURGE ON VACCINE BREAKTHROUGHS AND US PRESIDENTIAL ELECTION OUTCOME

DECEMBER 2020

Key points

Cyclicals rally on economic recovery hopes

Large cap and technology stocks lose favour

European stocks finally outperform

Biden victory spurs emerging markets

Havens such as treasuries and gold under pressure

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GLOBAL EQUITIES ENJOY ONE OF THE BEST MONTHS ON RECORD AS ECONOMICALLY SENSITIVE STOCKS COME BACK INTO FAVOUR

Global stocks rallied sharply in November as progress in the development of COVID-19 vaccines encouraged optimism over the economic outlook. Joe Biden's victory in the US presidential election also proved positive, reflecting the view that a win for the Democratic Party candidate would result in a bigger fiscal stimulus than would occur if President Trump had emerged victorious. These developments outweighed a surge in COVID-19 cases in the US and a tightening of measures to limit the spread of the virus in Europe that are likely to weigh on economic activity. The belief that vaccines should become widely available in 2021, so spurring an economic rebound, caused traditional havens for cautious investors to lose ground, with yields on Treasuries rising for much of November and the price of gold falling. Meanwhile, oil prices rose to levels not seen since the outbreak of the pandemic on hopes of a rebound in energy demand in 2021 if vaccines prove effective.

The MSCI World Index of global equities gained 12.01 per cent in local currencies, which equated to a 9.27 per cent rise in sterling terms. The index is up by 10.16 per cent over the year to date. However, there are sharp variations in the performance of regional markets over 2020; the US and Asian emerging markets lead the advance, while Europe lags. In terms of sectors, economically sensitive and mid and small-cap stocks came back into favour at the expense of the large caps and technology names that fared well for much of the year.

European equities enjoyed one of their best months on record in November, strongly outperforming global benchmarks on the back of vaccine news and the US election outcome. Stocks most likely to benefit from an economic upturn fared well. Standout performers include Continental and Peugeot, BMW and Volkswagen among autos, and BNP Paribas and Commerzbank in the financial sector. Airbus and Air France-KLM also saw significant gains. However, economically-sensitive areas gave up some of their gains amid a tightening of measures to combat the virus in Europe towards the end of the month. The MSCI Europe (ex UK) index gained 14.20 per cent overall in November.

US equities, as measured by the S&P 500, rose by 10.95 per cent in local currency terms in November, enjoying their best month since April. Positive announcements on vaccines, easing election uncertainty and cabinet appointments by the president-elect overshadowed weak economic data. Shares in businesses worst affected by the pandemic, such as energy producers, cruise-line operators and banks, rose sharply. The stock price of smaller companies focused on the domestic market also performed strongly.

The view that a Biden administration will be beneficial for emerging markets, and hopes of a global economic recovery that will prove positive for export-oriented emerging economies, lifted emerging market equities in November. The MSCI Emerging Market index gained 7.78 per cent in local currency terms over the month and is up by 12.62 per cent in the year to date. President-elect Biden is expected to adopt a less aggressive stance towards China on issues such as trade than that pursued by President Trump. The new administration's likely expansionary fiscal and monetary policies are also expected to weaken the US dollar, traditionally a positive development for emerging markets.

Japanese equities moved sharply higher, reaching levels not seen in nearly 30 years. Strong second quarter results from a number of companies suggest Japanese industry is performing well, despite the COVID-19 induced downturn. The long-awaited return of domestic investors as a force in the market initially drove stocks higher in November, but foreign investors also invested heavily on positive vaccine news. Economically sensitive areas such as real estate, consumer cyclicals, industrial companies and financials benefited from hopes of a strong revival in global and domestic economic growth.

The yield on ten-year US Treasuries continued to trend higher for much of the month. However, it dipped on the final days of trading to end November at 0.84 percent, slightly lower than the 0.87 per cent reached at the end of October, but significantly higher than the 2020 low of 0.31 per cent in March. The yield on Germany's equivalent benchmark government bond ended November at -0.57 per cent, up from the previous month-end's close of -0.62 per cent.