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RALLY IN GLOBAL EQUITIES CONTINUES ON ECONOMIC RECOVERY HOPES, DESPITE SPIKE IN COVID-19 CASES

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Key points

- Equities rally on economic recovery hopes
- Markets shrug off spike in Covid-19 cases
- US and emerging markets outperform
- UK and Europe lag significantly in 2020
- Bond yields remain depressed with many investors enjoying annual positive returns

ROLLERCOASTER RIDE IN 2020 ENDS WITH MOST MAJOR EQUITY MARKETS IN POSITIVE TERRITORY AND BOND YIELDS AT VERY LOW LEVELS

Global stocks ended a turbulent year on a high note with all major markets delivering strong gains over December. Optimism that mass vaccination programmes against Covid-19 will enable a sharp rebound in global economic growth and corporate profits supported the rise in equities. Expectations that central banks and governments will continue their economic support programmes over 2021 further bolstered markets. The rally took place despite fears of fresh lockdowns - due to a global surge in the spread of the virus - that will dampen economic activity in the short term. Yields in the fixed income universe remained at depressed levels reflecting expectations of sustained low interest rates.

The MSCI World Index of global equities gained 3.54 per cent in local currencies, which equated to a 1.84 per cent rise in sterling terms. Despite the sharp Covid-19-induced slump that began in February, investors who remained in markets over the year were well rewarded. The index gained 14.03 per cent in 2020. However, there were significant variations in the performance of regional markets; while UK and European equities remain below the levels at which they began the year, US and Asian emerging markets outperformed. In the latter part of the year, the market rally spread into economically sensitive, and mid and small-cap stocks from the large caps and technology names that fared well for much of 2020.

US equities, as measured by the S&P 500, outperformed over the month and the year. The index gained 3.84 per cent in local currency terms in December, capping off an annual gain of 18.36 per cent that propelled the index to a record high. The index touched a low in March, having lost a third of its value within the space of a month. However, it ended 2020 more than two-thirds higher than its 2020 nadir. Positive announcements on vaccines, optimism about a Biden presidency and the outlook of continued supportive monetary and fiscal policies supported the rally.

Emerging markets enjoyed a strong month and year, the MSCI Emerging Market index rising by 6.11 per cent in local currency terms in December and 19.46 per cent in 2020. Recent positive economic news from China – the only major economy likely to record positive growth last year – proved particularly encouraging. China is a major export market for many emerging economies. Continued monetary easing in the US should also weigh on the dollar, and a weak greenback is traditionally positive for emerging economies.

European equities underperformed global share markets after a strong November, but still delivered a 2.24 per cent gain in December. Positive factors include vaccine breakthroughs and an agreement between the UK and the European Union that includes a partial free-trade accord. The deal brings an end to over four years of uncertainty triggered by the Brexit vote in 2016. German stocks reached a record high following news of the agreement.

UK equities suffered their worst year since the financial crisis of 2008. The heavy weighting of UK stocks towards some of the worst-hit sectors by the coronavirus such as energy and resources, and uncertainty over the impact of Brexit on the economy, weighed on the market. However, the FTSE All-Share jumped by 3.86 per cent in December on news of the EU pact.

Japanese equities underperformed the global index over the month and the year. Japanese stocks have, however, rebounded since their mid-March lows, reaching levels not seen in nearly 30 years. Expectations corporate profits growth in Japan could outpace the US and hopes the Tokyo Olympics and a recent Asian trade pact will boost the economy helped lift stocks higher.

Bond yields remain near all-time lows, and many fixed income investors ended the year with gains. The yield on ten-year US Treasuries finished 2020 at 0.91 per cent, up from 0.84 per cent at the end of November. Over the 12 months, however, yields fell by almost one per cent, the largest tightening since 2011, and plummeted as low as 0.31 per cent in March. The yield on Germany's equivalent benchmark government bond was unchanged over the month, ending the year at -0.57 per cent, and down from -0.19 per cent at the end of 2019. Ten-year bond yields in Italy, Spain, Portugal and Greece all fell to new record lows in December, with those of Spain and Portugal moving into negative territory.

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Stewart is responsible for our economic research and analysis of the UK and main European markets, working alongside the other economists in our Strategy Team. He joined the investment industry in 1993 and Aviva Investors in March 2005.