November 2020

Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Economic & Political news

Encouraging vaccine news spurred sentiment in November despite record Covid19 cases in the US and more stringent containment measures in Europe. In the US, the labour market continued to recover, consumers kept spending and the manufacturing sector remained healthy. Europe's services sector, with PMIs as a proxy, dipped into contraction territory and household confidence edged down across countries as a result of the 'light lockdowns' (contamination curves were starting to flatten at the end of November). Earnings reports were solid as 84% of S&P 500 companies reported a positive EPS surprise for Q3 2020. Joe Biden will become the 46th President of the US after defeating Donald Trump – 306 vs 232 in the Electoral College. The House will remain Democrat and the Senate is expected to remain Republican as they only need to win one of the two Georgia runoffs races on 5 January 2021 to maintain their majority. The uncertainty prompted by Mr. Trump's refusal to concede faded over the month as his legal attempts to challenge election results failed. In the meantime, little progress was made by Congress towards the next fiscal package. President-elect Biden announced former Federal Reserve (Fed) Chair Janet Yellen as his nominee for Treasury secretary (she now needs to be confirmed by the Senate). The Fed and the European Central Bank (ECB) left their interest rates unchanged. In addition, Christine Lagarde signalled that the ECB might top up and extend its Pandemic Emergency Purchase Programme at its December policy meeting. The Bank of England expanded its quantitative easing by GBP 150 billion to GBP 895 billion. More broadly, the Reserve Bank of Australia cut rates and launched quantitative easing for the first time. On the Brexit front, negotiations remain gridlocked on fishing rights and fair competition as both sides enter the final stretch before the end of the transition period in December.

Equities

Equity markets saw solid gains in November on the back of positive vaccine news which supported investor sentiment. The hardest hit European markets bounced back strongly – thanks to their more value-tilted components, outperforming the rest of the world. The Stoxx600 returned 13.8% vs the 11% of the S&P500. Developed markets (+12.8%) outperformed Emerging Markets (EM) (+9.3%). EM ex Asia (+17%) outperformed Emerging Asia (+7.5%). During the last three weeks of November we saw record inflows into equities (USD 89 billion) and the second largest inflow into value stocks (USD 7.6 billion). The CBOE VIX eased from 38 to 20 points. More broadly, the IBEX35 increased 25.3%, FTSE MIB 23%, the CAC40 20.1%, the DAX 15% and the FTSE 100 12.7%. The best performing developed markets were the IBEX35, the ATX Austrian (+24.3%) and the FTSE MIB. The worst performing developed market equity indices were the S&P/NZX 50 (+5.7%), the OMX Copenhagen (+6.1%) and the Hang Seng (+9.4%). The best sectors were Energy (+29.4%), Financials (+19.4%) and Industrials (+15.9%). The worst performing sectors were Utilities (+5.4%), Consumer Staples (+7.9%) and Health Care (+9%).

Fixed Income

Government bond yields experienced a busy month. As the election results became clearer, investors priced out the reflation trade they had positioned for in case of a "Blue Wave". US 10-year Treasury yields dropped over 20bp, but, only a few days later, on the back of the positive vaccine news, the trade reversed again, and yields edged upward with the US 10-year yield almost reaching 100bps, before retreating again to end the month at 0.84%. In Europe, negative yields also traded upward, and curves steepened. This movement, however, slowly gave up its advance during the rest of the month with German Bunds rising only 7bp to -0.57%, OATs 3bp to -0.33%, Gilts 9bp to 0.3% and BTPs decreasing 12bp to 0.63%. The high yield space outperformed the higher quality investment grade market. US and European IG spreads narrowed 20bp and 23bp respectively, while the US and European HY spreads narrowed 89bp and 111bp respectively.

Emerging Markets

Although they underperformed their developed counterparts, emerging markets posted positive returns in November – the MSCI EM increased 9.6% and the MSCI EM ex Asia 17%. China's Caixin manufacturing PMI rose to 54.9 from 53.6, hitting the highest level since 2010 and helping to support the sector across the region. Thanks to a better handling of the health crisis, Asia, with China in the lead, is already signalling a much stronger growth outlook than the West. The best performing emerging markets (in local currency) were the Merval index (+20.5%), the Thailand index (+18%) and the IBOVESPA index (+15.9%). The worst performing emerging markets were the KS3-100 Pakistan (+3%), the EGX 30 index (+4.9%) and the CSI 300 index (+5.7%).

FX & Commodities

The US dollar weakened over the month as measured by the DXY index, which decreased 2.4% to 91.9. The euro strengthened 2.5% to 1.19 against USD and GBP followed suit, strengthening 3.1% to 1.33 against USD. More broadly, the US dollar only strengthened vs ARS (+3.3%). On the other hand, the dollar weakened 1.1% vs CHF, 0.4% vs JPY, 1.7% vs CNY, 7.2% vs the TRY, 6.8% vs the BRL and 4.1% vs AUD. Gold was 3% up, over USD 1,950 an ounce, before reversing as the Blue Wave was priced out, falling -6.3% for the month to end at USD 1,776 an once. Oil prices surged on the back of the vaccine news and the possible end of the pandemic. WTI soared 23.2% to USD45.3 per barrel and Brent increased 22.1% to USD47.6 per barrel. Silver decreased 6%, copper climbed 11.2% and coffee jumped 17%.

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