Monthly Newsletter
Savings and Investments

With vaccine rollout we can now see an end to the pandemic

December 2020

Market overview

November was one of the best months in stock markets history, mainly boosted by good news related to COVID-19 vaccine expectations. This is very important news in the context of big second wave spread of the virus we are currently dealing with. As we are soon entering a new year, the prospects for 2021 include coming out of lockdowns and recovering economic activity with the bridge of a timely vaccine. The market rebound since spring has largely been driven by monetary and fiscal stimulus, but with a vaccine rollout we can now see an end to the pandemic. If anything, markets are now more optimistic on the outlook and have to an increasing degree discounted the vaccine and a robust economic recovery in 2021. As such, equities are trading at higher historical levels and the bearish investor could argue are tentatively expensive. But we note that relative to other asset classes, in particular government bonds, equities are favoured. An unprecedented 2020 called for unprecedented measures, and with central banks and policy makers going to new lengths to boost economies, yields tumbled to record lows and government debt soared to record highs. As a result, as long as COVID-19 is not contained, we are of the opinion that the supportive backdrop from governments and central banks will likely continue well into 2021.

Stock market indexes' performance (until 30 November 2020)

Region	Index	Currency	Performance							
			2020 Nov	2020 YTD	12 Months	2015	2016	2017	2018	2019
USA	S&P 500	USD	10,8%	12,1%	15,3%	-0,7%	9,5%	19,4%	-6,2%	28,9%
Europe	MSCI EURO	EUR	17,5%	-5,4%	-4,4%	6,1%	1,7%	8,7%	-14,2%	22,0%
Eastern Europe	MSCI EM Eastern Europe	USD	22,4%	-23,0%	-17,9%	-8,1%	33,0%	12,9%	-8,3%	26,9%
Asia	MSCI EM Asia	USD	7,5%	17,9%	26,0%	-11,8%	3,8%	40,1%	-17,3%	16,6%
Latin America	MSCI EM Latin America	USD	21,6%	-24,7%	-17,3%	-32,9%	27,9%	20,8%	-9,3%	13,7%

Expectations

Supportive economic backdrop for 2021, but we see an overhanging risk over the winter months as many countries have reinstated partial lockdowns which could curtail demand and have negative macro impacts over the short term. But for the time being, from this possible macro slowdown markets participants rather turned their focus on vaccines and stimulus talks from politicians. As such, we have seen extreme degrees of optimism as the investor community has poured capital into markets. But despite the rising bullish sentiment, yields are still at very low levels, earning forecasts are favourable and prospects for further stimulus is still expected, all of which propels our view that equities can still go higher in 2021.

Our GDP forecasts. 2020 will be a year with negative global GDP growth of around 4.5% and decline in corporate earnings around 15-20%. Meanwhile the capital market has recovered its earlier decline. Rapid adjustments in corporate sector, as well as large stimulus programmes by central banks and governments, have created a good environment for continued normalization of economy. We expect that this will lead growth recovery in the range of 5% in 2021 and 4% in 2022, as well as corporate earnings increases of about 25% in 2021 and 15% in 2022.

While we can expect some weaker macro data over the winter months due to the lockdowns, in particular in the service sector, we expect macro data to accelerate and broaden as economies reopen further in 2021. We note that financial conditions are accommodative, markets are pumped with liquidity, capital expenditure is picking up, and political risks for 2021 have faded. And as of late, bad news is good news, which means that weaker macro data would propel policy makers to keep the stimulus or even expand it. As such, the real economy will see a recovery in 2021, but the question is whether the growth rebound will be a confirmation of the expected returns.

The risks for next year include rising interest rates and inflation expectations. Lower real yields have provided further liquidity and supported higher equity valuations. The question is, what would happen when central banks start decreasing stimulus and interest rates go up. But considering that government debt levels and private debt are at high levels, and whilst we are still in a depressed economy, we cannot expect the major central banks to raise interest rates anytime soon. As such, we do not expect an inflation shock over the next few months, but considering the liquidity building up we keep a careful lookout over the long-term.

Our market view. Though the world has suffered a new setback as the spread of COVID-19 increases, encouraging indications about impending vaccines and a US election outcome that was well received by investors help us feel more confident, allowing us to lift our expectations to 2021 and 2022. We will gradually reopen our societies in 2021 and at least partially return to pre-crisis patterns and behaviours. If we react as we usually do, there should also be a pent-up need for things we were forced to give up during the pandemic.

The return to a more normally functioning society and a more robust economic situation will continue to be supported by central banks, which will ensure that there is plenty of liquidity in the system over the next few years and that key interest rates and government bond yields do not skyrocket. At the same time, we will see unusually far-reaching fiscal stimulus programmes. As the recovery strengthens, these programmes will shift from emergency responses to forward-looking initiatives, for example as part of a worldwide green transition.

This clear improvement has already been discounted by the capital market, and last spring's stock market declines have been reversed. The price of financial assets has risen significantly and is now quite high from a historical perspective. The sharp upturn during November means that various indicators of current thinking among investors are signalling an optimistic view and a general increase in risk in their portfolios, a development that normally limits upside potential and makes markets more sensitive to negative news.

However, this is balanced by a bright medium-term forecast for both GDP growth and corporate earnings. Interest rates and bond yields are also extremely low and are expected to remain so for some time to come, which means there are few alternative sources of returns. This will affect relative prices and create tolerance for higher asset valuations.
