Monthly Newsletter Savings and Investments

Pandemic year finished with upbeat investors sentiments and new records in stock markets

January 2021

Market overview

Positive developments in many risky asset classes in December finished the most difficult year for investors since the great financial crisis. During the month MSCI World equity index rose almost 2% and total result for the year reached 6,3%, while the emerging market equity index MSCI Emerging Markets ended the year with 5% growth in December and a full-year result of 8,5%. Positive sentiment has prevailed in the markets in recent weeks, despite the fact that many countries are currently facing a second or even a third wave of pandemic and have been forced to impose extremely strict restrictions. Still, looking at the changes in the financial markets, you can see that after the news about vaccines, investors are already seeing the world after the pandemic and expect a very quick return to normal life. The upbeat mood in the market was also inspired by major central banks and governments which kept supporting the economies and promised to continue doing so. In addition, although negotiations over further stimulus have stalled in the U.S. for some time and this has put some pressure on investors, on the 20th of December outgoing US President D. Trump has finally signed a 900 billion dollar bill that will make it easier for residents and businesses to survive current economic downturn. Despite the quarantine, business expectations for the future remain very high - for example, the US manufacturing sentiment index ISM manufacturing rose to 57.1 points in December, which means that manufacturers expect more orders, higher revenues, and profits.

Stock market indexes' performance (until 31 December 2020)

Region	Index	Currency	Performance							
			2020 Dec	2020 YTD	12 Months	2015	2016	2017	2018	2019
Global	MSCI World	EUR	1,9%	6,3%	6,3%	10,4%	10,7%	7,5%	-4,1%	30,0%
Global	MSCI Emerging Markets	EUR	5,0%	8,5%	8,5%	-5,2%	14,5%	20,6%	-10,3%	20,6%
USA	S&P 500	USD	3,7%	16,3%	16,3%	-0,7%	9,5%	19,4%	-6,2%	28,9%
Europe	MSCI EURO	EUR	1,6%	-3,9%	-3,9%	6,1%	1,7%	8,7%	-14,2%	22,0%
Eastern Europe	MSCI EM Eastern Europe	USD	9,6%	-15,6%	-15,6%	-8,1%	33,0%	12,9%	-8,3%	26,9%
Asia	MSCI EM Asia	USD	6,9%	26,0%	26,0%	-11,8%	3,8%	40,1%	-17,3%	16,6%
Latin America	MSCI EM Latin America	USD	11,6%	-16,0%	-16,0%	-32,9%	27,9%	20,8%	-9,3%	13,7%

Expectations

We expect that the global economy will recover in 2021 and return to 2019 levels. In the short term, the economic situation will remain tense due to severe restrictions in many countries, but the global vaccination process that has begun should accelerate the process of returning to normal. If such a scenario materializes, it is expected that most businesses will be able to resume operations within a few months. As a result, corporate profit growth forecasts for 2021 remain very high.

Our GDP forecasts. Global GDP is expected to decline by about 4,5% in 2020. Corporate profits for the full-year will probably fall by about 15% in the U.S. and more than 30% in Europe. However, central banks and governments should not stop stimulating the economy, which will be a critical factor in the normalization process. We expect this will lead to a quick Global economic recovery of about 5% in 2021 followed by 4% growth in 2022. Corporate profits in 2021 should increase by about 20 percent in the US and by more than 30 percent in Europe.

Many of the risks in financial markets for 2021 will be related to the COVID-19 pandemic. Although vaccination in the world has started back in December, due to the complexity of transportation and high demand, there is still a risk that the desired scale may not be achieved so quickly. Also, the spread of new strains of the virus increases the likelihood that the vaccine may be less effective than the original studies have shown. Another risk remains rising interest rates in the market. Yields on 10-year U.S. Treasury bonds nearly doubled over the past six months (from 0.50% in the summer to 0.9% at the end of the year). As U.S. Treasury yields rise, so does the cost of corporate borrowing, making it harder for them to borrow and increasing interest costs. However, the US Federal Reserve, realizing that the economy recovering from the pandemic will remain vulnerable for some time to come, promises not to raise interest rates until at least 2023 and that should put some ceiling for market interest rates.

Our market view. Although the global economy is still facing a pandemic and countries are being forced to impose restrictive measures, the process of vaccination and the coordinated actions of central banks and governments suggest a good 2021 year for both the global economy and financial markets. Despite recent uptick in US overall interest rates in the market remain low, so investors will continue to be willing to take on more risk, which will favor riskier asset classes, especially equities. Also, even though it is already be priced in, news of a new fiscal stimulus package in the US, estimated at around $ 2 trillion, is expected to hit markets over the coming months and that should add extra confidence for the investors.
