MARKET INSIGHTS

Market Review

1 December 2020

Review of markets over November 2020

In years to come, when people look back on the Covid-19 crisis and what was a torrid year for the world, November will likely be marked as a turning point. The announcement of three vaccines that are effective against the virus drove a risk-on mood in markets and added fuel to the post-US election rally, eclipsing worries about the near-term economic outlook. Equity markets cheered the light at the end of the tunnel, with this year's biggest losers gaining the most in November: MSCI Europe ex-UK and FTSE All-Share indices returned 14.2% and 12.7%, respectively. The year-to-date star performers, Asia ex-Japan and the US, still made impressive monthly gains of 8.0% and 11.0%. Global value stocks returned 15.1%, outperforming growth, which returned 10.9%. And in fixed income it was the riskier high yield and emerging markets that outshone the higher quality markets.

Exhibit 1: World stock market returns

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	Nov '20
MSCI EM 79.0%	MSCI Asia ex Japan 19.9%	US S&P 500 2.1%	MSCI Asia ex Japan 22.7%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 17.3%	MSCI Europe ex-UK 14.2%
MSCI Asia ex Japan 72.5%	MSCI EM 19.2%	UK FTSE All-Share -3.5%	Japan TOPIX 20.9%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	US S&P 500 14.0%	UK FTSE All-Share 12.7%
UK FTSE All-Share 30.1%	US S&P 500 15.1%	MSCI Europe ex UK -12.1%	MSCI Europe ex UK 20.0%	MSCI Europe ex UK 24.2%	MSCI Europe ex UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex UK -10.6%	UK FTSE All-Share 19.2%	MSCI EM 10.5%	Japan TOPIX 11.1%
MSCI Europe ex UK 29.0%	UK FTSE All-Share 14.5%	Japan TOPIX -17.0%	MSCI EM 18.6%	UK FTSE All-Share 20.8%	MSCI Asia ex Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 4.3%	US S&P 500 11.0%
US S&P 500 26.5%	MSCI Europe ex UK 5.1%	MSCI Asia ex Japan -17.1%	US S&P 500 16.0%	MSCI Asia ex Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex Japan -8.9%	MSCI Europe ex UK 3.2%	MSCI Europe ex UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 0.1%	MSCI EM 9.3%
Japan TOPIX 7.6%	Japan TOPIX 1.0%	MSCI EM -18.2%	UK FTSE All-Share 12.3%	MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -13.2%	MSCI Asia ex-Japan 8.0%

Source: FTSE, MSCI, Refinitiv Datastream, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2020.

Over three successive Mondays in the month, markets were greeted by announcements that the Pfizer/BioNTech, Moderna and AstraZeneca/Oxford vaccines had been shown to be effective in reducing symptomatic cases of Covid-19. With the first hurdles of efficacy and safety seemingly passed by all three, attention now turns to how quickly these vaccines can be approved, manufactured, distributed and administered on a mass scale. Here it is worth noting the logistical challenges of the 90% effective Pfizer/BioNTech and 95% effective Moderna vaccines, which both require cold storage (at -70ºC in the case of the former) and are relatively expensive. The less effective (70%) AstraZeneca/Oxford vaccine is able to be stored at regular fridge temperatures, and comes at a fraction of the price. With emerging markets having made their largest pre-orders for the AstraZeneca/Oxford vaccine, they stand to benefit from its approval the most.

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An end to the Covid-19 crisis is now in sight, but the path to recovery may still be bumpy over the coming quarters as governments grapple to control the virus, particularly as seasonal factors make this more difficult through the winter. In Europe, significant restrictions to curb the spread of the virus look to have been effective, with new infections now falling sharply from their latest peak. In the US, the situation has continued to escalate, with new cases continuing to rise and deaths following. High-frequency activity data shows the stark effect that the restrictions in Europe have had in slowing the economy. The question now is whether Europe is once again a bellwether for the US, and whether new restrictions and therefore a decline in services activity will be needed to contain the virus there.

In any case, markets are likely to digest near-term economic developments in the context of better times on the horizon, just as they did this month.

Exhibit 2: Asset class and style returns

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	Nov '20
MSCI EM 79.0%	Small cap 26.6%	Global Agg 5.6%	Global REITS 23.0%	Small cap 32.9%	Global REITS 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 27.9%	Small cap 15.4%
Small cap 44.8%	Global REITS 22.8%	Global REITS 2.3%	MSCI EM 18.6%	Value 27.5%	Growth 6.6%	Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	DM Equities 28.4%	DM Equities 11.7%	Value 15.1%
Growth 33.9%	MSCI EM 19.2%	Value -4.9%	Small cap 18.1%	DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	MSCI EM 10.5%	Global REITs 13.1%
Global REITS 32.6%	Cmdty 16.8%	DM Equities -5.0%	Growth 16.6%	Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITs 24.4%	Small cap 8.4%	DM Equities 12.8%
DM Equities 30.8%	Growth 14.9%	Growth -5.1%	DM Equities 16.5%	Global REITS 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 7.8%	Growth 10.9%
Value 27.7%	DM Equities 12.3%	Small cap -8.7%	Value 16.4%	MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmdty -11.3%	MSCI EM 18.9%	Value -3.9%	MSCI EM 9.3%
Cmdty 18.9%	Value 9.8%	Cmdty -13.3%	Global Agg 4.3%	Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -7.7%	Cmdty 3.5%
Global Agg 6.9%	Global Agg 5.5%	MSCI EM -18.2%	Cmdty -1.1%	Cmdty -9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITs -13.8%	Global Agg 1.8%

Source: Bloomberg Barclays, FTSE, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT Global Real Estate Investment Trusts; Cmdty: Bloomberg Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2020.

What was touted in many 2020 outlooks as the big event of the year – the US election – passed without upsetting markets. The unprecedented amount of votes being cast by mail-ins as a result of the pandemic meant that markets were made to wait to find out that Joe Biden will be the next president. And while the Trump campaign has filed legal challenges to contest several of the state results, we are confident that this will play out without any material changes in the result, given the margin of victory. Indeed the transition process from a Trump to a Biden administration is now underway.

We see two key policy implications from a Joe Biden victory. First, we expect the incoming president to take a more diplomatic and less confrontational approach in foreign policy matters, preferring to build pressure in a multilateral way and avoiding tariff measures, which come with greater economic costs, when possible. Second, the US will reunite with its global peers in the effort to combat climate change, with the president-elect intending to re-join the Paris Climate Agreement on day one of his administration. We expect this to help drive the green agenda and shape the policies for global economic recovery in 2021.

As well as the presidency, the Democrats also retained control of the House. But control of the Senate – a key determinant of what any future fiscal stimulus may look like – will be decided on 5 January 2021 with two special run-off elections in Georgia. If the Republicans manage to win at least one of these elections, as looks most likely, then Republicans will control the Senate and Congress will be divided. That event would be likely to herald a smaller and less far-reaching stimulus package than under a 'blue wave' scenario, but also prevent substantial corporate tax rises. Weighing up the prospect of less fiscal stimulus versus little change to corporate taxes, fewer trade war tweets and generally lower uncertainty, the markets on balance cheered the election outcome.

The economic recovery in the US has been proceeding at a good pace, but there are some signs that it is slowing. The flash purchasing managers' index (PMI) surveys for November showed that both manufacturing and services activity was improving, with the indices both rising more than expected. Labour market data for October also continued to improve, with the unemployment rate falling 1 percentage point to 6.9%. But the consumer is feeling more wary of late, with the Conference Board and University of Michigan's confidence measures for November declining.

Exhibit 3: Fixed income sector returns

2013	2014	2015	2016	2017	2018	2019	YTD	Nov '20
Euro HY 8.8%	Euro Gov. 13.1%	Euro Gov. 1.6%	US HY 17.5%	EM Debt 9.3%	Euro Gov. 1.0%	EM Debt 14.4%	Global IL 10.3%	Euro HY 4.4%
US HY 7.4%	EM Debt 5.5%	EM Debt 1.2%	EM Debt 10.2%	Global IG 9.1%	US Treas. 0.9%	US HY 14.4%	Global IG 9.0%	US HY 4.0%
Euro Gov. 2.2%	Euro HY 5.5%	US Treas. 0.8%	Euro HY 10.1%	Global IL 8.7%	US HY -2.3%	Global IG 11.5%	US Treas. 8.3%	EM Debt 3.7%
Global IG 0.3%	US Treas. 5.1%	Euro HY 0.5%	Global IG 4.3%	US HY 7.5%	Global IG -3.6%	Euro HY 10.7%	Euro Gov. 4.8%	Global IG 3.1%
US Treas. -2.7%	Global IL 3.4%	Global IG -3.6%	Global IL 3.9%	Euro HY 6.1%	Euro HY -3.6%	Global IL 8.0%	US HY 4.1%	Global IL 2.6%
Global IL -3.2%	Global IG 3.1%	US HY -4.6%	Euro Gov. 3.2%	US Treas. 2.3%	Global IL -4.1%	US Treas. 6.9%	EM Debt 4.0%	US Treas. 0.3%
EM Debt -6.6%	US HY 2.5%	Global IL -5.0%	US Treas. 1.0%	Euro Gov. 0.2%	EM Debt -4.6%	Euro Gov. 6.8%	Euro HY 1.9%	Euro Gov. 0.1%

Source: Bloomberg Barclays, BofA/Merrill Lynch, J.P. Morgan Economic Research, Refinitiv Datastream, J.P. Morgan Asset Management. Global IL: Barclays Global Inflation-Linked; Euro Gov.: Barclays Euro Aggregate Government; US Treas: Barclays US Aggregate Government - Treasury; Global IG: Barclays Global Aggregate - Corporates; US HY: BofA/Merrill Lynch US HY Constrained; Euro HY: BofA/Merrill Lynch Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBIG. All indices are total return in local currency, except for EM and global indices, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2020.

In the eurozone, the restrictions to contain the virus have once again exacerbated the gap between the paces of recovery in the manufacturing and services sectors of the economy. The manufacturing PMI for November slowed by 1 point to 53.8, while the services component fell 4.9 points to 41.3, indicating contraction. While businesses were feeling gloomier about the present, their expectations of future activity increased significantly.

Eurozone consumer confidence also took a knock in November, declining to -17.6 from-15.5. It now seems apparent that the eurozone economy will print a contraction in the fourth quarter. On the politics front, the leaders of Poland and Hungary effectively vetoed the European Union's recovery fund and seven-year budget because the funding is conditional on upholding the rule of law. Negotiations are ongoing, but the intervention raises the risk of delaying members' access to funds.

Exhibit 4: Fixed income government bond returns

2013	2014	2015	2016	2017	2018	2019	YTD	Nov '20
Spain 11.1%	Spain 15.9%	Italy 4.8%	UK 10.7%	Global 7.5%	Spain 2.5%	Italy 10.6%	US 8.3%	Global 1.7%
Italy 7.2%	Italy 15.2%	Spain 1.7%	Spain 4.1%	US 2.3%	Germany 1.9%	Spain 8.3%	Global 8.0%	Italy 0.9%
Japan 2.1%	UK 14.6%	Japan 1.2%	Germany 3.4%	UK 2.0%	Japan 1.0%	UK 7.1%	Italy 7.4%	Spain 0.4%
Germany -1.7%	Germany 9.0%	US 0.8%	Japan 3.2%	Spain 1.1%	US 0.9%	US 6.9%	UK 7.1%	US 0.3%
US -2.7%	US 5.1%	UK 0.5%	Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.6%	Spain 4.1%	Japan 0.1%
UK -4.2%	Japan 4.5%	Germany 0.4%	US 1.0%	Japan 0.2%	Global -0.7%	Germany 3.1%	Germany 3.0%	Germany -0.4%
Global -4.3%	Global -1.0%	Global -3.7%	Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 1.7%	Japan -0.9%	UK -0.5%

Source: Bloomberg Barclays, Refinitiv Datatsream, J.P. Morgan Asset Management. All indices are Bloomberg Barclays benchmark government indices. All indices are total return in local currency, except for global, which is in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2020.

Like its counterparts in Europe, the UK government once again reintroduced restrictions to contain the latest outbreak of the virus. As a result, it recognised that businesses and households would need continued help throughout the winter and so announced the extension of the furlough scheme to the end of March. The Office for Budget Responsibility forecasts that government borrowing will hit GBP 384 billion this year, or 19.4% of GDP – a figure not seen since the Second World War.

It is thanks to the efforts of the Bank of England (BoE) to keep Gilt yields so low that the government has been able to continue to finance these much-needed support measures throughout the crisis. With the near-term economic outlook darkened by the latest restrictions, and more government spending needed, the BoE announced that it would expand its asset purchase facility by a further GBP 150 billion, GBP 50 billion more than had been expected.

With vaccine news signalling that there is light at the end of the tunnel, uncertainty around the length of the Covid-19 crisis is beginning to fade, which in turn is brightening the outlook for risk assets – despite the difficult winter ahead for the economy. Within equities, the outperformance this month of this year's losers makes sense, with a return to normality now on the horizon. As the economic recovery plays out, earnings expectations should continue to recover providing continued support for equities. For those seeking diversification beyond equities, we think that considering an allocation to flexible fixed income strategies and macro funds, as well as real assets, makes sense.

Exhibit 5: Index returns for November 2020 (%)

INDEX	GBP	USD	JPY	EUR	LOC
Equities (MSCI)					
MSCI World Index	9.3	12.8	12.5	9.9	12.0
MSCI USA	8.1	11.6	11.3	8.6	11.6
MSCI Europe ex-UK	13.4	17.1	16.8	14.0	14.2
MSCI United Kingdom	13.1	16.8	16.5	13.7	13.1
MSCI Japan	9.0	12.5	12.2	9.5	12.2
MSCI AC Asia ex-JP	4.6	8.0	7.8	5.2	7.3
MSCI EM Latin America	18.1	21.9	21.6	18.7	15.1
MSCI EM (Emerging Markets)	5.8	9.3	9.0	6.4	7.8
Bonds					
Bloomberg Barclays Global Aggregate	-1.4	1.8	1.6	-0.9	
Bloomberg Barclays US Aggregate	-2.2	1.0	0.7	-1.7	1.0
Bloomberg Barclays Japan Aggregate	-2.8	0.4	0.1	-2.2	0.1
Bloomberg Barclays UK Aggregate	-0.2	3.1	2.8	0.4	-0.2
Bloomberg Barclays Euro Aggregate	-0.3	3.0	2.7	0.3	0.3
Currencies					
Sterling		3.3	2.6	0.5	na
US dollar	-3.1		-0.3	-2.6	na
Yen	-2.5	0.3		-2.4	na
Euro	-0.5	2.7	2.4		na

Source: Bloomberg Barclays, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2020.

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