Market review — Q4 2020

Global risk assets moved materially higher in the final quarter of 2020 following positive developments regarding key issues such as COVID-19 vaccines, fiscal stimulus in the US and a Brexit deal. Vaccines with better-than-expected efficacy rates were developed, authorised and deployed in the UK, Europe and US. In light of continued economic challenges, central bankers confirmed they would keep financing conditions favourable, whilst in the US an agreement was made with respect to additional fiscal stimulus. Elsewhere, a Brexit separation deal was finally agreed towards the end of the year. In the US, Joe Biden was elected as the next US President and the market rallied, particularly in those areas most directly linked to his fiscal stimulus and renewable infrastructure. Economic data through the quarter broadly indicated that the recovery still had momentum, although US jobs data showed some cause for concern. More concerning for investors was the increase in COVID-19 case numbers and subsequent reintroduction and/or tightening of restrictions across a number of countries.

Following the vaccine news, global equities posted double-digit-plus returns during the quarter with cyclically exposed assets leading the charge. Emerging market equities in aggregate outperformed developed market equities, led by Asia-ex Japan. The S&P 500 index ended the year at another record level, posting double-digit returns, while Europe and the UK reached post pandemic highs. There were similar outsized risk-on moves in the high yield corporate bond market, as Europe outperformed the US. In emerging markets, both sovereign bonds and currencies posted positive, and in some cases high, returns.

As a 'risk-on' rotation prevailed, performance of developed market government bonds was mixed. In reaction to a slew of positive news, US Treasuries sold off and the yield curve steepened, whilst other developed market sovereign bonds, such as those in the UK and Germany, generated a small positive return. Investment grade corporate bonds in both the US and Europe generated positive returns, attributed to a supportive technical backdrop as the asset class continued to see inflows from both central banks and investors. The US dollar weakened to fresh lows since April 2018 amidst the cautiously optimistic tone seen in the markets and the commitment to highly accommodative policy from the US Federal Reserve, with this benefiting other currencies such as the euro and the Japanese yen, whilst sterling also made gains following the post-Brexit trade deal agreement.

Gold had a challenging start to the quarter but recovered in December to generate a small positive return of c. 1%, ending the quarter just below US$1,900/oz.

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