Market update

November was a month of optimism and market recovery, catalysed by multiple positive announcements on Covid vaccines and the tortuous, but eventually clear, outcome of the US election. Despite both events being well flagged in advance, they contained enough new positive news to meaningfully improve risk sentiment and spark big rallies in depressed assets across the globe.

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At the start of the month one would have thought that it would take an awful lot to push the outcome of the most partisan US election in history into second place in terms of market impact, but the early November announcement from Pfizer of trial results for their Covid vaccine did exactly that. Although vaccines had been expected by investors, the 95% efficacy of the Pfizer/BioNtech drug was startlingly high and a positive surprise which gave a real boost to risk sentiment across asset classes. This boost was amplified by similar announcements from Moderna a week later and then finally by AstraZeneca towards month end. The recent approval for the Pfizer vaccine and further anticipated approvals from regulatory authorities in the next few days and weeks should allow vaccination programmes to begin this side of Christmas, and the journey back to normality to finally begin.

To be honest, investors could and did see this series of events coming, but given the potential for a negative outcome, few had positioned too aggressively ahead of the actual announcements. 'Covid loser' sectors such as the travel and leisure, or entire markets like the UK, stuffed full of 'old economy' names, had few friends for most of 2020 and that remained consistent as we entered the penultimate month of the year.

> "A Biden Presidency balanced by a likely Republican Senate was eventually assessed to be the best of both worlds for markets"

The vaccine news changed all that, particularly the first announcement, backed up by the gradual acceptance of the US election outcome. A Biden Presidency balanced by a likely Republican Senate was eventually assessed to be the best of both worlds for markets, as it removed a chaotic Trump administration without handing untrammelled power to the 'reforming' incomers. Market 'unfriendly' Biden policies are much less likely to pass in their purest form now, allowing US markets to breathe a little easier, whilst pricing in the additional good news on Covid vaccines.

What happens next?

One thing that was noticeable across the month was the differing reactions between risky and safe assets, with the initial retreat from safe assets slowing, then partially reversing itself as the month progressed. The headline grabbing recoveries in various individual Covid affected stocks and sectors probably reflected as much of an absence of selling as they did enthusiastic new buying.

The recognition that the world economic recovery still has a long way to go to make up for the damage caused by lockdown, and must do this with an astonishingly large debt burden, undoubtedly acted as a check on overly bullish sentiment. Price moves in depressed assets were indeed large, but as one of the managers hit most hard by the market drawdowns puts it 'having been 4 nil down at half time it's now back to 4-2'. Working out if the recent news is enough to keep risk assets firmly in the game in the face of opposition pressure will be your investment committee's major task for the year ahead.

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On balance, we are of the view that the general recovery in risk sentiment will continue to outweigh the very real downside pressure from second waves, high debt and uneven economic recoveries. At the time of writing we also still do not have finality in Brexit negotiations, albeit the latest signs are encouraging. However, as the saying goes this too shall eventually pass and, as uncertainty fades, money is likely to come back into risk assets as we progress through 2021. Volatility will undoubtedly remain high, but the overall impact of the events of November in our opinion is that they should act to underpin optimism, which after a year such as the one we have just had, is a good result.

Portfolio Performance

Portfolios delivered between. +2.1% and +8.8% depending on risk mandate with the higher risk mandates rising the most. As could be expected it was heavily punished assets – such as UK equity income managers – that rose the most, with mid-teens percentage gains. Smaller company equity exposures also had a powerful rally and the overall moves in stock markets were strong, regardless of geography - this was a month when risk rallied globally. There were some positions that were sluggish or even fell – gold and higher quality bond managers being the most obvious - but these losses were nowhere big enough to seriously dent the returns from elsewhere.

David Cooke
On behalf of the Saltus Investment Committee, December 2020