Alan Boswell Financial Planners

Market Update - January 2021

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For investors, the fourth quarter's impressive sprint to the finish line was a fitting end to a tumultuous 2020. Of course, this outcome was not a foregone conclusion at the start of the quarter. September had just delivered the first monthly loss for risk assets since March. The initial recovery stumbled in mid-October as a new wave of COVID-19 cases accumulated around the globe and a return to lockdown measures began to take shape. Then a sharp early-November advance followed, coinciding with the U.S. presidential election. This rally was propelled higher through the end of the year by a series of much-welcomed announcements about the effectiveness, approval, and distribution of COVID-19 vaccines.

Even as the fourth quarter continued the upward trend from second and third quarter recoveries, the stocks driving the gains began to change. A rotation in market leadership appears to have begun from growth-oriented stay-at-home stocks to less-expensive cyclically-oriented stocks. Sector-level performance highlights the change. Energy and financials were the top performers by a wide margin in the fourth quarter. These were the third quarter's worst performers; in fact, they lagged for most of 2020.

Performance in the fixed-income universe also joined the rally into year end. The riskiest segments fared the best, with emerging-market debt and high-yield bonds leading during the fourth quarter. U.S. Treasurys, which are often the choice of the most conservative, risk-averse investors, were the only negative-performing fixed-income segment. But Treasurys fared much better if we look at full-year performance. Investment-grade corporates had the best full-year returns after a comparably modest fourth quarter. While we have seen a short-term rotation over the last few months, it's probably premature to declare it the beginning of a long-term shift in equity investment themes. In the near-term, slowdowns or pauses in vaccine manufacturing and distribution are likely to be among the factors that contribute to market volatility.

The last-minute Brexit deal at the end of 2020 has removed some uncertainty. However, uncertainty continues to a degree, as the deal addressed the transfer of goods but not commerce in services. Barriers to trade introduce economic inefficiencies. Post-Brexit, prices will likely end up being a bit higher, GDP a bit lower and supply chains a bit more unreliable for U.K. businesses.

Globally, we expect to see signs of a recovery reveal themselves as COVID-19 abates and economic activity normalises. In the meantime, fiscal spending and accommodative global central-bank policies should sustain GDP growth and, eventually, cause inflation to rise. As market participants price in these developments, "long-duration" assets such as bonds and stocks with very high valuations should come under pressure. Momentum investors are likely to rotate into new themes, potentially adding fuel to the value rally that has emerged.

Please note the following:

All investments involve different degrees of risk. Please remember that past performance is not a guide to future performance. The value of units and shares and the income from them can go down as well as up and investors might not get back the amount originally invested. Exchange rates may cause the value of overseas investments to rise or fall.

Where we have expressed views and opinions, these may change over time. None of the information mentioned in this document represents a specific portfolio or holding nor constitutes a recommendation to buy or sell.

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