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December 2020 Market Update

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Is the end of November a time to celebrate? All the stock markets we cover in the Bulletin made significant gains in the month; the UK's second national lockdown ends this week and, as we write, Christmas is a little over three weeks away.

Or is the glass half-empty? We're going to come out of lockdown into far harsher tiers than we've previously experienced. There are already dark mutterings of the tiers extending well into the New Year and, for many families, Christmas is going to be very different this year.

A lot happened in November. It brought us the Chancellor's Spending Review and perhaps the clearest indication yet of the impact the pandemic has had on the national high street, as the Arcadia group slid inexorably towards collapse and the potential loss of 13,000 jobs.

November also, of course, brought us the US Presidential Election and - despite the threat of endless lawsuits - the almost certain inauguration of Democrat Joe Biden on Wednesday January 20th. But could Vladimir Putin be on his way out as Joe Biden comes in? There were plenty of rumours circulating about the Russian President's health, with suggestions that he might even stand down in January.

Meanwhile the Bulletin's longest running saga rumbled on. With just a month to go to the end of the transition period there is still no agreement between the UK and the EU, with fishing proving to be the latest stumbling block. Did anyone ever doubt that the negotiations would go right down to the wire? No, neither did we.

Most significantly though, November brought hopes of an anti-Covid vaccine in many countries, with claims that the vaccine developed in the UK is 90% effective. If you're looking for a reason why stock markets did so well in November, look no further.

As always, let's delve into the details.

UK

The big news story of the month in the UK was the Chancellor's Spending Review. Rishi Sunak had long since cancelled the Autumn Budget because of the economic uncertainty, instead presenting a 30 minute outline of the Government's spending plans for next year.

Despite the continuing costs of the pandemic - and despite Government borrowing for October being the highest on record - he outlined some lavish commitments, including what he described as a £100bn "once in a generation" investment in the nation's infrastructure, including a £15bn commitment to research and development.

This came despite a forecast of Government borrowing reaching £394bn this year, with the Office for Budget Responsibility predicting that the economy will contract by 11.3%. Unemployment is forecast to reach 7.5% next year, with 2.6m people out of work.

The Chancellor - as Chancellors must - remained optimistic in his speech. But November brought the usual mixture of good and bad news.

Having mentioned Arcadia in the introduction, which we wrote on November 30th, this morning brings news that last-ditch rescue talks have failed, and Debenhams is set to close with the potential loss of 12,000 jobs. Coming on top of the earlier news about the collapse of Peacocks and Jaeger - which has put 4,700 jobs at risk - this all adds up to a devastating month for traditional UK retail. Quite what these closures will mean to some town centres hardly bears thinking about.

2020 has also been a very bad year for the UK car industry. Figures released for October showed that production was down again, with production in the month just 20% of that recorded in October

2019. November also brought the news that the Government is bringing forward its ban on the sale of new diesel and petrol cars, which will now be effective from 2030.

Figures from the Office for National Statistics showed that the UK economy had grown by 15.5% in the third quarter. On the face of it that is good news, but there are worries that the rate of growth is slowing down. The UK economy was 9.7% lower in the third quarter of 2020 than in the same quarter in 2019, and some commentators fear that it could shrink again in the fourth quarter. The ONS also revealed that Government borrowing had soared in October, reaching £22.3bn for the month, the highest October figure since records began in 1993.

Whether you consider this next item to be good news will depend on where you are on the housing ladder. UK house prices grew at an annual rate of 6.5% in November, the fastest rate since January 2015 as the stamp duty holiday continued to boost the market.

Despite the overall gloom - especially in the retail sector - the FTSE-100 index of leading shares had a good month. As we have mentioned in the introduction, the reason was simple: hopes of an effective vaccine. November delivered news of the vaccine developed by AstraZeneca and Oxford University, with claims that it could prevent up to 90% of people from becoming ill.

Boosted by this news the FTSE had one of the best months in its history: having started the month at 5,577 the FTSE ended November up 12% at 6,266. The pound was up 3% against the dollar and ended November trading at \$1.3352.

Brexit and Trade

The UK's Referendum on leaving the EU was held on 23rd June 2016, with the UK ultimately leaving the European Union on January 31st this year. Ten months later - and nearly 4½ years after the Referendum - the negotiations rumble on. The transition period - the time agreed in order to reach a trade deal - ends on December 31st, less than a month from now.

Effectively, it is much less than a month, given the Christmas holiday period and the need to get any agreement ratified by all the EU member states.

In November the Governor of the Bank of England said that the long term effects of a 'no deal' Brexit would prove more damaging to the economy than the pandemic. He may or may not be right: what is undeniable is that, as we write, there are still a lot of points of disagreement, not the least of which is fishing rights.

The UK apparently labelled the EU's latest offer on fishing rights 'derisory' with Michel Barnier reportedly telling EU ambassadors he had offered a 15% to 18% reduction in the bloc's fishing rights in British waters.

With Christmas and Covid, could there be a chance that an extension to the transition period will be agreed? You wouldn't bet against it. Meanwhile, with very little negotiation, the UK signed a rollover trade deal with Canada.

Europe

It looks as though EU leaders might be negotiating with Poland and Hungary as well...

Back in July EU states had agreed a €1.1tn (£980bn) budget for 2021-2027 and a €750bn (£671bn) Covid recovery fund. Now Hungary and Poland have blocked approval of that budget, vetoing it at a meeting in Brussels.

The EU is already investigating both countries for supposedly violating the 'democratic standards enshrined in the EU's founding treaty.' Violating that 'rule of law' could cost both countries billions of euros in EU funding, so it is hard not to see this as a tit-for-tat retaliation as tensions between Brussels and some of the former members of the Soviet bloc increase.

In happier news many countries in Europe - including France, Germany and Spain - have eased Covid restrictions in the run-up to Christmas, although restrictions on large scale Christmas and New Year gatherings remain in place.

From happier news to *much* happier news. Like all the markets we cover in the Bulletin the German and French stock markets performed strongly in November. Germany's DAX index rose 15% to close the month at 13,291 while the French stock market did even better, closing up 20% at 5,519.

US

It seems a long time ago now but November started with the US Presidential Election. The actual poll has almost been forgotten in the welter of claims and counter-claims that have followed it, and the debate on whether the 45th President will formally concede to the man who will be the 46th.

According to the website RealClearPolitics Joe Biden now has 306 votes in the Electoral College to Donald Trump's 232. The conspiracy theories about electoral fraud will remain, but it will be Biden who will be inaugurated on January 20th.

If the likely members of his Cabinet are any guide, then he will pursue policies very similar to the Clinton and Obama administrations: this morning brought the news that former Chair of the Federal Reserve Janet Yellen will be his Treasury Secretary.

We have mentioned the Spending Review above and Rishi Sunak's commitment to a £15bn programme of research and development. To put that into perspective, Apple is reported to have spent £18.75bn (£14bn) on R&D in its 2020 fiscal year. Then again, the recent rise in the price of Apple shares did make it worth more than the combined value of all the companies in the FTSE-100 index.

There is no doubt that the pandemic has been good to the FAANGs: Facebook, Apple, Amazon, Netflix and Google who, between them, account for almost 15% of the value of the S&P500 index.

We may soon need to add a T to that acronym. November's rise in the share price of Tesla meant that Elon Musk overtook Bill Gates to become the 2nd richest man in the world - behind, of course, Amazon's Jeff Bezos.

Unsurprisingly November was a good month for the stock indices in the US. The Dow Jones index broke through the 30,000 barrier at one point, closing at an all-time high of 30,046. By the end of the month it had slipped back to 29,639 for a gain of 12% in the month. The S&P 500 index was up 11% to 3,622.

Far East

November was a bad month for Chinese fintech giant Ant Group, as the Chinese authorities pulled the plug on its planned stock market flotation, which would have raised over \$37bn (£27.4bn) and been the world's biggest ever stock market debut. There are increasing signs that the authorities in Beijing are looking to stamp down on what they see as the excessive power of the country's internet giants.

The big news in the Far East was the signing of the Regional Comprehensive Economic Partnership (RCEP) which saw 15 countries - including Australia and New Zealand - form the world's largest trading bloc, covering nearly a third of the global economy.

Some commentators see the RCEP as an extension of China's influence in the region, but speaking a few days later at the Asia-Pacific Economic Cooperation forum, Chinese leader Xi Jinping was at pains to stress that China would open up its 'super-sized' economy to more "high quality goods and services."

...Not, though, to Australian wine. As trade tensions between the two countries continued, China slapped duties ranging from 107% to 212% on Australian wine imports, citing 'anti-dumping' concerns. Perhaps McGuigans might like to dump their wines in the UK instead...

You suspect that trade tension between China and the UK may also increase, as the UK Government brought forward its ban on using Huawei equipment in the country's 5G infrastructure.

What of the stock markets? China's Shanghai Composite index rose 5% in the month to end November at 3,392. The best performance in the region came in Japan, where the Nikkei Dow rose 15% to 26,434. The South Korean index was up 14% to 2,591 while the Hong Kong market rose 9% to 26,341.

Emerging Markets

A topic that has been discussed, and relatively recently, is that of Russian President Vladimir Putin cementing his hold on power in the country and paving the way to becoming 'President for life.' Now it appears that may not be the case: November saw rumours circulate about Putin's health, with suggestions that he might step down in January.

The Kremlin has denied claims that Putin is to quit, and that he might be suffering from Parkinson's Disease. State officials say that the President is in 'excellent' health, while the rumours insist his family have urged him to stand down in the New Year. We won't have to wait long to find out...

The Russian stock market was far more influenced by claims about the effectiveness of the country's new anti-Covid vaccine, the splendidly named Sputnik V, and was up 15% in November to close the month at 3,108. The Brazilian market did even better, rising 16% to 108,893 while the Indian stock market rose 11% to 44,150.

And finally

Back in the mists of prehistory, when we first became interested in investment, there was one thing we couldn't understand. How could, for example, the Chinese stock market be at 3,000 while the Japanese market was at 24,000? Did that mean Japan's market was worth eight times China's market? Surely not...

The answer, of course, was that it all depended on the base figure used when the index was first created. But thank goodness we never encountered the Venezuelan stock market in those early days. The *Bursatil* made some significant gains in November - and closed the month at 1,142,802...

The FTSE reaching Venezuelan levels aside, if we had a wish for this section it would be to turn back the clock. Drones have been much in the news this year and there can't be many people who haven't seen one flying. It is only a matter of time before the Amazon drone touches down in your back garden.

But how did we miss this story? Back in January 2018 two brothers from Germany made a drone that could carry a person - *surely* the future of travel. They made the drone out of an old bathtub and successfully carried out a manned flight round a local gymnasium. Definitely one that goes in the 'do not try this at home' column.

We will be back to update you in the first week of January. Have a wonderful Christmas and may 2021 bring everything you would wish for.

Sources: <https://informedfinancialplanning.co.uk/wp-content/uploads/2020/12/December-Sources.pdf>