



INFORMED
financial planning



January 2021 Market Update

January 2021 Market Update

2020 has been a year like no other, and yet - as we will see below - the majority of world stock markets have enjoyed a good year. It was also a good year for Joe Biden, who defeated Donald Trump in November's Presidential election, and for supporters of Brexit.

Finally, some 4½ years after the Referendum a deal was agreed with the European Union, and the UK's transition period ended on December 31st.

As always, let us look at all the detail. We have also added an extra section this month, looking at the performance of the major world stock markets over the whole of 2020.

UK

The main news in the UK was, of course, the eventual deal with the European Union. We have covered this in our final Brexit section below.

Away from the Brexit negotiations, the UK went into stricter new tiers at the beginning of the month just as the Pfizer vaccine was approved for use. But, with infections continuing to rise, there was little doubt that we were heading for even harsher lockdown measures.

Quite what this will do to the beleaguered UK high street is anyone's guess. Lockdown measures were reported to have 'battered' footfall in the run-up to Christmas, and December saw Bonmarché collapse into administration while Primark reported that the pandemic had wiped £430m off its balance sheet.

Figures for Boxing Day suggested that footfall on one of the busiest shopping days of the year was down 60%, and 2020 was reported to be the worst year for retail job losses for 25 years. With the furlough scheme gradually coming to an end the news on job losses can only get worse.

In the wider economy the UK's unemployment rate rose to 4.8% in the three months to September, up from 4.5% in the previous month, with the Office for National Statistics reporting a record 314,000 redundancies in the period.

Growth for the third quarter was revised upwards to 16%, but worryingly growth almost stalled in October, with the ONS reporting that the economy grew by just 0.4% in the month. Government borrowing soared in November to £31.6bn - the highest November figure ever recorded. Inflation fell to just 0.3% in November as lower prices for food and clothing drove the figure down from 0.7% in the previous month.

Was there any good news? Yes - there was plenty of optimism amid the gloom as the Pfizer vaccine started to be rolled out. Three-quarters of small firms said that they were likely to hire staff next year and *City AM* reported a Lloyds Bank survey as saying that business confidence was at a nine-month high. Consumer confidence also jumped sharply on news of the vaccine.

So much for surveys and 'confidence.' Let's end the year with some tangible good news. Start-up company Britishvolt announced that it had chosen Blyth in the North East as the site of the UK's first ever battery 'gigaplant.' The project will cost £2.6bn and will employ 3,000 people at the plant, which will produce lithium ion batteries for electric vehicles. It is expected that a further 5,000 jobs will be created in the supply chain.

Although - as we report below - it had a poor year, the FTSE-100 index of leading shares did reasonably well in December, ending the month up 3% at 6,461. The pound was up 2% against the dollar at \$1.3672 and was up by 3% for the year as a whole.

Brexit & Trade

There were plenty of newspaper headlines but - as we had always expected - a deal between the UK and the EU was agreed and the EU/UK Trade and Cooperation Agreement was passed by 521

votes to 73 in the Commons. It duly received Royal Assent and became law, with the UK's transition period with the EU ending at 11pm on December 31st.

There will, of course, be teething problems. Whether you think the deal is a good thing or a bad thing almost certainly depends on how you voted in the Referendum. For all the sound and fury since then, we doubt that many people have changed their minds.

The UK signed a free trade deal with Turkey at the end of the month, and there will unquestionably be more deals signed this year.

...But it seems appropriate to leave the final word on Brexit to Boris Johnson, the man who will go down in history as the Prime Minister who took the UK out of the European Union. Here's what the PM had to say:

'People used to insist that you couldn't have both: you couldn't have unfettered free trade with the EU, we were assured, without conforming to EU laws. You couldn't have your cake and eat it. Maybe it would be unduly provocative to say this is a cake-ist treaty; but it is certainly from the patisserie department.'

With that insightful - and calorie-laden - analysis, and after more than 50 appearances, it is time to say goodbye to the Brexit section of the bulletin.

Europe

Like the UK, Europe spent much of December introducing various new degrees of lockdown. Italy announced a Christmas and New Year lockdown - and will presumably have a wary eye on the Chinese New Year on February 12th, which did so much to spread the virus in the North of the country last year. Germany introduced a raft of new restrictions and Spain said that it would keep a register of those people who refused to be vaccinated against Covid-19.

Tesla's plans for a new 'gigafactory' in Germany have been beset by objections from environmentalists. Preparations once again came to a halt in December, as campaigners won a court injunction, arguing that the site will endanger local species of snakes and lizards.

More optimistically, Ryanair has agreed to buy a further 75 new Boeing 737 aircraft, bringing the total number of jets it has ordered to 210 - a major vote of confidence in the future of the aviation and holiday industries. The total value of the deal is \$22bn (£16bn).

It was also reported that the EU was on the brink of a 'major investment deal' with China, which will give EU firms better access to the Chinese market. Talks on the deal started in 2014 - which really illustrates how quickly the Brexit negotiations were concluded.

December was a reasonably good month for the two major European markets we cover in the bulletin. The German DAX index rose 3% to close the month at 13,719 while the French stock market was up just 1% at 5,551.

US

Two weeks from writing this, the US will have a new President: Joe Biden will be inaugurated as the 46th President on January 20th, beginning a four year term with Kamala Harris as his Vice-President.

So far his administration includes many of the stalwarts of the Obama and Clinton years, with Biden naming Janet Yellen - former Chair of the Federal Reserve - as his new Treasury Secretary.

The big challenge for the new team will be getting America back to work. The economy added 245,000 jobs in November, below many economists' expectations. The jobless rate did fall from 6.9% to 6.7%, but it was believed to be because many people stopped looking for work over the holiday season. Worryingly, some key virus relief programmes, including some unemployment benefits, are now due to expire.

In company news Airbnb made its debut on the stock market and saw its value exceed \$100bn (£73bn) while Uber announced it was selling its self-driving cars and flying taxi divisions for the rather novel business idea of ‘concentrating on profits.’

The month ended with a deal finally being reached to approve a \$900bn (£657bn) Covid stimulus package - and with continuing warnings of a cyber-attack on the US government. The New York Stock Exchange announced that it would de-list three Chinese telecoms giants due to supposed links to the Chinese military.

With or without the Chinese companies Wall Street enjoyed a good month. The Dow Jones index closed above 30,000 - ending the month up 3% at 30,606. The more broadly-based S&P500 index was up 4% at 3,756.

Far East

December started with a report that China was escalating its ‘tit-for-tat’ trade war with the US, introducing tough new laws restricting the export of products - notably military technologies - that might harm China’s national security.

As we have seen above, the US took action against three Chinese telecoms companies at the end of the month. From January 20th though, China will have a new administration to deal with: US intelligence officers are already saying that Chinese agents are stepping up their attempts to influence ‘Team Biden.’

Continuing the cloak and dagger theme, the Chinese authorities maintained their crackdown on fintech companies and - as we write on the morning of January 4th - there are concerns over the whereabouts of Jack Ma, billionaire co-founder of the Alibaba Group, who hasn’t been seen in public since he criticised the regime back in October.

Events were rather more peaceful across the China Sea, with the Japanese government announcing a further Covid stimulus for the economy. The additional spending - amounting to 73.6tn yen (£530bn) will include subsidies for green investment and spending on digitalisation and is aimed at pulling the country out of its Covid-induced economic slump.

There was certainly no slump on the region’s stock markets in December. China’s Shanghai Composite index rose 2% to 3,473: the Hong Kong market was up 3% to 27,231 and Japan’s Nikkei Dow rose 4% to 27,444. The South Korean market spoiled our neat arithmetic progression by having an excellent month, rising 11% to close December at 2,873.

Emerging Markets

There was good news for India in the month, with an article in *City AM* stating that ‘India will be the big winner of the new world order.’ The writer suggested that the more China pressures India - witness the recent skirmishes in the disputed border region - the more India will ally itself with the US, and reap the consequent economic benefits.

We shall see... In the short term December was a good month for the Indian stock market, which rose 8% to close at 47,751. The Brazilian index went one point better, rising 9% to 119,017 while the Russian market was up 6% to 3,289.

World Stock Markets in 2020

No doubt if someone had said to you on January 1st ‘there’ll be a global pandemic and the world will still be battling it on December 31st’ you may have been confident of all the world’s stock markets falling.

That is very far from the case: with the world’s central banks pumping money into global economies some markets have had very good years. Leading the way is the South Korean market, which is up 31% this year. Elsewhere in the Far East Japan rose by 16% and China’s Shanghai

Composite index rose 14%: the only major market in the region to fall was Hong Kong, which dropped by 3%.

In Europe the German DAX index rose by 4% in 2020, but the French market was down 7%. Sadly the UK's FTSE-100 index was down by 14% - the worst performance of all the markets we cover in the bulletin, and the worst year for the FTSE since the financial crisis.

In the US the Dow Jones index was up 7%, while the S&P500 index rose by 16%. We don't report on it in the bulletin, but the Nasdaq index - the US' index of tech stocks - was up by an eye-watering 42% in 2020.

India led the way in our Emerging Markets section, with the stock market up by 16% in the year: the Russian market rose 8% and the Brazilian index was up by 3%.

And Finally...

2020 - despite all the serious headlines - was a good year for the 'And finally' section of the bulletin. December certainly lived up to the year's high standards, and began with Australian teenager Jessica Collins. Jess grew up on a mango farm in Queensland and - frustrated by how many mangoes go to waste - turned 1,400 unwanted fruits into a dress for a school project.

Clearly Jess won't have any time for video games, which is a shame as Kentucky Fried Chicken have launched a games console which will also warm up your chicken. "The chicken chamber will keep the contents hot, ready to eat during intense gaming sessions," said KFC. And no, it is not April 1st.

...But will Earth survive until April 1st? It appears that our planet has failed the interview and will not be admitted to the Galactic Federation.

According to professor and retired Israeli general Haim Eshed - and reports in several papers - there is a Galactic Federation of alien species among the stars. But they don't want us humans to be part of their club, as we're 'not ready.' The aliens won't make this known publicly as they are worried that we'll 'freak out.' They have, however, contacted President Trump who may be on the verge of revealing their existence.

We'd better wish you a Happy New Year while we still can. With the aliens' permission, we will be back at the start of February: in the meantime our very best wishes go to all our clients for a happy, healthy and prosperous 2021.

Sources: <https://informedfinancialplanning.co.uk/wp-content/uploads/2021/01/January-Market-Sources.pdf>