Strategy & Outlook MARKET UPDATE

November 2020

Equity markets pushed higher in the first half of the month, driven by decent economic data, positive corporate commentary and earnings and incremental positives regarding potential vaccines / therapeutics / rapid tests.

The second half the month however saw a precipitous fall in equity markets, particularly in Europe as Covid-19 cases surged, hospitalisation rates increased rapidly, and significant restrictions were introduced across Europe. Although not of the same scale as the lockdowns from March and April, equity markets are fearful that these rolling lockdowns will be a feature of the economic landscape until such time as a vaccine is available. The global equity market finished the month 1.8% lower, having been up as much as 4% mid-month. The US market fell by 7.4% in two weeks, whilst European markets fell by 8.4%. It is notable that the poor performance of European equities has brought headline index levels back to levels last seen in April. Another notable feature of the sell-off in equity markets this week was how little protection was afforded by bonds, US bonds in particular – although German bond yields have been drifting lower over the last few weeks, US yields have been doing the opposite.

Adding to the concerns are the failure to reach a new stimulus deal in the US, which will now have to wait until after the election at least and possibly, depending on the outcome, until January. In addition, although both sides in the Brexit saga are still negotiating, no agreement has yet been reached, with time ticking down to the end of year deadline.

Over the month, economic data continued to show evidence of the ongoing global recovery, albeit not as strong as prior months. Chinese export and import data, US retail sales, purchasing managers indices globally, and employment data in the US continued to show a steady improvement. Continuing unemployment claims in the US for example, have fallen from a peak of 25mln to 7.8mln. Small business optimism in the US has also improved dramatically, with hiring and capital expenditure plans indicating further gains ahead.

Of course, if lockdowns continue or become more severe, that economic progress is likely to reverse, particularly in Europe, but the knowledge gained over the last six months about the spread of the virus and treatment regimens should serve to rapidly diminish the spread, ensuring that the lockdowns are neither total nor prolonged. In addition unlike earlier in the year, the enormous monetary policy support from central banks is clear, and while another stimulus package in the US has not materialised the argument is not over whether to provide a stimulus, but over how large it should be.

Positioning and Outlook
We remain close to the upper end of our asset allocation ranges within our multi-asset funds, with some index put option protection within the alternative allocation of the funds.

As we approach the end of a difficult year, despite the short-term uncertainties and volatility ahead with the US election, Brexit and Covid-19 news, all the ingredients are there for the equity markets to produce strong returns over the next few years for investors. Rates will remain at zero and fiscal stimulus across the globe continues (regardless of the outcome of the US election).The market leaders of the last few years at the forefront of both this and the next leg in industrial and technological change have seen their outlook improved as a result of Covid-19.

Ambitious carbon neutral targets by Europe are becoming the norm and will see the need for large scale investments across the global industrial supply chain. The more cyclical sectors of the market which have suffered this year are at attractive valuations, just as the global economic cycle picks up.

Merrion Investment Managers has a tried and trusted investment process with a proven track record that enables us to both exploit the opportunities and navigate the risks that lie ahead. This process has allowed us to not let the current short-term difficulties distract us from the exciting longer-term global opportunities available.

MERRION INVESTMENT MANAGERS | CANTOR Fitzgerald

75 St Stephen's Green, Dublin 2. Tel: +353 1 670 2500.

email : info@merrion-investments.ie **web :** www.merrion-investments.ie / www.cantorfitzgerald.ie