FINURA

MARKET COMMENTARY NOVEMBER 2020

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INFOGRAPHIC: THE GLOBAL ECONOMY

Could interest rates at zero come back to haunt the Fed?

Read article here

The US Federal Reserve will keep interest rates close to zero for three years as it aims for:

The new policy comes after years of undershooting the inflation target

But there are two key risks:

1. It may cause a **"paradox of thrift"** where people save more to meet investment goals rather than spending

2. It could cause **bubbles in asset prices** as investors chase returns in markets

Should UK investors prepare for negative rates?

Read article here

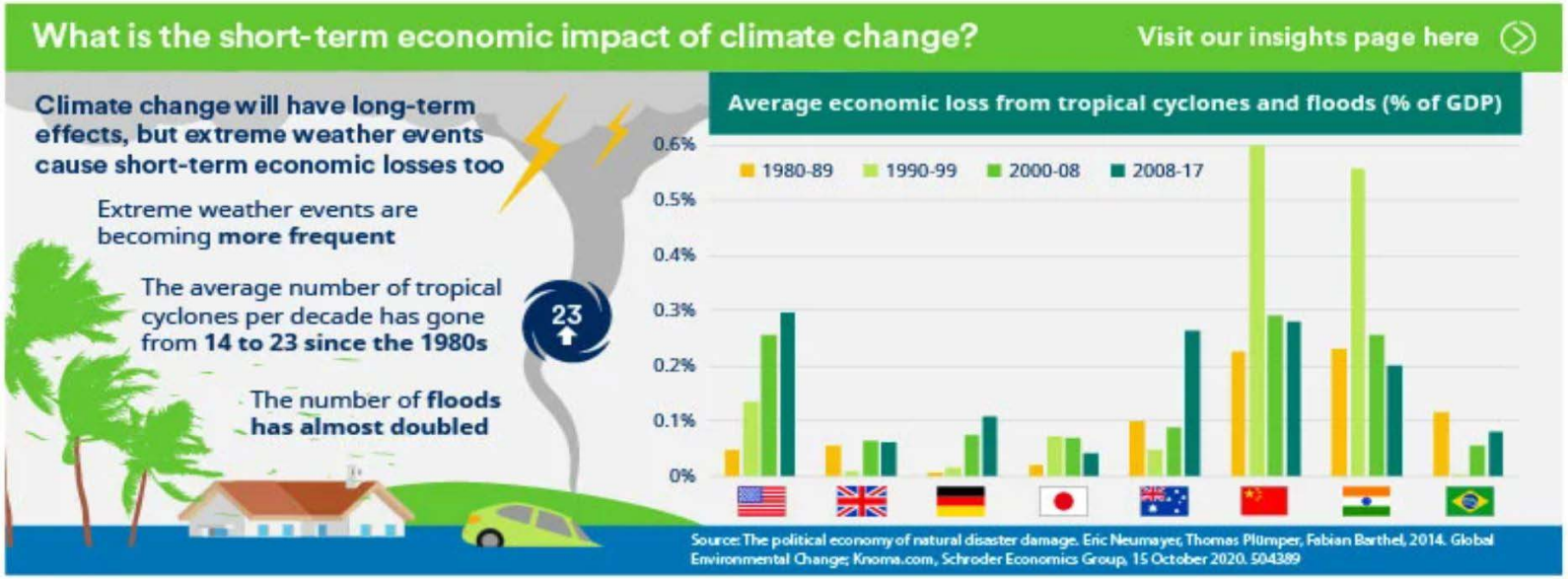
The Bank of England (BoE) recently asked UK banks how ready they were if the base rate – currently 0.1% - turned negative

- The BoE wants to keep money flowing into the economy via **loans and mortgages**
- **Cutting interest rates** is one way to do this
- **Quantitative easing** is another, where the BoE buys government and corporate bonds

As we expected, the BoE has announced more QE instead of cutting interest rates

The Bank of England base rate since 1975

Source: Bank of England, October 2020. 502363



Source: Schroders as at November 2020.

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

Positive | Positive/ Neutral | Neutral | Neutral/ Negative | Negative

	Category	View		Comments
Main Asset Classes	Equities	Positive/ Neutral		We expect the reduction in uncertainty following the US presidential election, the positive news on vaccines and the ongoing economic recovery to support equities.
	Government Bonds	Neutral		We maintain our view that the upside is limited and government bond markets remain expensive, despite the recent rise in yields.
	Commodities	Neutral		We have downgraded our view as we await better visibility on fiscal stimulus plans after the US presidential election.
	Credit	Positive/ Neutral		We retain a positive view overall, with a preference for higher quality, "investment grade" corporate bonds over lower quality non-investment grade ("high yield").
Equities	US	Positive	▲	We continue to favour the quality and growth characteristics of the US market. The Biden/split congress election result suggests four more years of supportive liquidity from central banks and governments.
	UK	Positive/ Neutral	▲	Although a resurgence in Covid-19 cases, accompanying restrictions and Brexit risks remain, we have upgraded the UK as we believe these negatives have been priced in.
	Europe	Positive/ Neutral	▲	Despite some uncertainty on fiscal coordination, we have upgraded Europe due to the recent news on the efficacy of the Covid-19 vaccines.
	Japan	Positive/ Neutral	▲	Upgraded due to recent news on the efficacy of the Covid-19 vaccines combined with a normalising of activity and the ongoing economic recovery.
	Pacific ex-Japan	Positive/ Neutral		Following the positive news on Covid-19 vaccines, we expect the economic recovery to continue, aided by fiscal and monetary policy.
	Emerging Markets	Positive	▲	We continue to favour EM, buoyed by the strength of the recovery in China, and some alleviation of the trade war risks from Joe Biden's victory in the US presidential election.
Government Bonds	US	Neutral	▲	Following the recent rise in yields, US government bonds (Treasuries) are beginning to look interesting again as they may offer protection if growth disappoints.
	UK	Negative		We maintain our view that there is less value in UK government bonds (gilts) given their poor relative returns compared to other developed markets.
	Germany	Negative		Germany remains a very expensive market and a strong euro creates an additional headwind for the European Central Bank (ECB).
	Japan	Negative		With inflation likely to remain significantly lower than target, the Bank of Japan will need to keep its unconventional policies in place.
	US Inflation Linked	Neutral	▼	Following the recent rise in yields, Treasury Inflation-Protected Securities (TIPS) now appear less favourable compared to Treasuries.
	Emerging Markets Local	Positive/ Neutral		We still see medium-term opportunities which are likely to provide higher yields.

	Category	View	Comments
Investment Grade Credit	US	●	Fundamentals are weak, but the Federal Reserve (Fed) is expected to remain supportive by extending its purchasing scheme.
	Europe	●	Although fundamentals are weak, demand is robust due to the ECB increasing its purchases back to levels seen in March and June 2020.
	Emerging Markets USD	●	We continue to favour high quality corporate bonds. The level of real interest rates is likely to remain the key driver of this market.
High Yield Bonds (Non-IG)	US	●	US high yield (HY) is less attractive than European HY.
	Europe	●	We retain our preference for European HY as we expect support from the ECB in the form of the pandemic emergency purchase programme (PEPP) to continue into 2021.
Commodities	Energy	● ▲	Given extreme market pessimism until the vaccine news, we believe there is now a valuation-driven opportunity, particularly in US energy.
	Gold	●	Recent optimism on the vaccine combined with signs of an economic recovery and a normalising of activity leads us to maintain our neutral view on gold.
	Industrial Metals	●	Although industrial metals could benefit from a recovery, China is tightening liquidity. Therefore, we are reluctant to upgrade given the uncertainty on fiscal stimulus.
	Agriculture	●	Although we prefer to stay on the side lines for the time being, the sector is resilient due to demand from Chinese trade commitments.
Currencies	US $	●	We maintain a positive view on the US dollar as it offers defensive properties at a time when government bonds offer less protection against financial loss.
	UK £	●	Although we remain neutral on sterling as we await the outcome of Brexit negotiations and the economic impact of Covid-19 lockdowns, there is a glimmer of hope on the horizon.
	EU €	●	We maintain a neutral view on the euro as growth has deteriorated due to lockdowns. However, we expect that aggressive central bank support will help next month.
	JAP ¥	● ▼	With the US election out of the way and positive news on vaccine efficacy, the outlook for the yen has weakened and for this reason we have downgraded our view.
	Swiss F	●	We expect the Swiss franc to remain range-bound due to the better environment for risky assets compared with the European Covid-19 lockdown despair.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Source: Schroders, November 2020. The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

MARKETS REVIEW

A look back at markets in November, in which stocks made record gains amid a decisive outcome in the US election and several successful Covid-19 vaccine trials.

HIGHLIGHTS

- Global equities rallied strongly in November, mainly due to several vaccines proving effective against Covid-19. The improved risk appetite saw corporate bonds outperform government bonds.
- US equities surged as vaccine breakthroughs sparked investor optimism that a return to economic normality is in sight. Joe Biden won the presidential election.
- In the eurozone, expectations of global recovery supported shares, with the region a particular beneficiary given its high exposure to global trade.
- UK equities performed well, helping them to recoup some of their year-to-date underperformance versus other regions. Sentiment was also helped by hopes that a "no-deal" Brexit might be avoided.
- The MSCI Asia ex Japan index recorded its highest return in more than four years. US dollar weakness amplified returns.
- Japan's equity market rallied, driven by vaccine-related news and the slow-motion results from the US presidential election.
- Emerging market equities registered a robust return. Value outperformed growth, while Latin America and emerging Europe outperformed emerging Asia.
- Government bond yields were volatile during the month, with large swings around the US election and vaccines news. Corporate and emerging markets bonds performed well.
- Commodities delivered a positive return, aided in part by a weaker US dollar. Energy was the best-performing component.

THE US

US equities surged in November as several vaccine breakthroughs sparked investor optimism that a return to economic normality is in sight. The news eclipsed President-elect Joe Biden's eventual victory in the US presidential election, and concerns over the smooth transition of power.

The most economically-sensitive areas of the US stock market rose the most sharply. Energy stocks were up markedly. Financials, industrials and materials also rose. The US dollar declined.

EUROZONE

Eurozone shares surged in November with the MSCI EMU index gaining 17%. Positive news on vaccines supported shares, with the eurozone a particular beneficiary given the region's high exposure to global trade.

There were also encouraging signs that Covid-19 infection rates are slowing in several European countries, enabling governments to start easing lockdown restrictions. Energy and financials were amongst the best-performing sectors.

UK

UK equities outperformed in November on the back of the positive vaccine news, helping them to recoup some of their year-to-date underperformance versus other regions.

Sentiment was also helped by hopes that a "no-deal" Brexit might be avoided. The standstill/transition arrangement within the EU-UK Withdrawal Agreement ends on 31 December 2020.

A notable rotation into value stocks prompted some debate as to whether the long-term dominance of so-called growth stocks may at last be challenged. Value stocks are those that appear to be trading for less than their intrinsic worth, while growth stocks are anticipated to grow at a rate significantly above the average for the market.

JAPAN

Japan's equity market rallied in November, driven by vaccine-related news and the slow-motion results from the US presidential election. However, the style reversal seen in most markets was very muted in Japan, with only a brief outperformance for value stocks, while small caps underperformed sharply.

In the near-term, the focus will be on the vaccine roll-out, Japan's general election timetable and the scope for a full corporate earnings recovery.

ASIA (EX JAPAN)

The MSCI Asia ex Japan index recorded its highest return in more than four years as the news of vaccines boosted investor sentiment. US dollar weakness amplified returns. The ASEAN (Association of Southeast Asian Nations) markets of Thailand and Singapore led the index higher.

By contrast, China, which has outperformed significantly on a year-to-date basis, underperformed amid a rotation in market leadership. There was also rotation within the market, with internet stocks, which have outperformed year-to-date, dragging on market performance.

EMERGING MARKETS

Emerging market equities registered a robust return as vaccine news flow and the election of Joe Biden boosted risk appetite. Value outperformed the growth factor.

On a regional basis, Latin America and emerging Europe outperformed emerging Asia. Greece, Poland and Hungary were the best-performing index countries. Turkey outperformed as a new central bank governor and treasury and finance minister were appointed.

GLOBAL BONDS

Government bond yields were volatile during the month. The US 10-year Treasury yield was three basis points (bps) lower at 0.84%, but saw large daily changes around the US election and news on vaccines.

In Europe, 10-year yields of Germany and France edged a little higher, to -0.57% and -0.33% respectively. Peripheral yields fell to low levels on news of vaccines and expectations that the European Central Bank could increase bond purchases. The Italian 10-year yield fell 13 bps to 0.63% and Spain's fell 5 bps to 0.08%.

Corporate bonds performed well, with global investment grade producing a total return of 2.1% and high yield 4.1% (Source: ICE BofAML, local currency total returns). Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.

Emerging market hard currency bonds gained 3.9%, with corporate bonds rising 2.7%, both led by high yield. Local currency bonds returned 5.5%. EM currencies performed well against the US dollar, notably in Latin America (Source: JP Morgan).

Convertible bonds benefited from the tailwind of strong equity performance. The Thomson Reuters Global Focus index, which measures balanced convertible bonds, advanced 6.5%. Convertible bonds were highly sought after and valuations became more expensive.

COMMODITIES

In commodities, the S&P GSCI Index delivered a positive return, aided in part by a weaker US dollar. Energy was the best-performing component, with strong gains for Brent crude as vaccine optimism boosted hopes for a sustained recovery in economic activity and energy demand. Industrial metals also posted a double-digit gain, driven by robust returns from lead, copper and aluminium.

Conversely, precious metals was the only component to record a negative return, as investor demand for safe-haven assets waned. Gold and silver fell. The agriculture and livestock components also underperformed, despite finishing in positive territory.

TOTAL RETURNS (NET) % – TO END NOVEMBER 2020

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	12.8	9.8	9.2	14.5	5.6	11.0
MSCI World Value	15.0	12.0	11.4	-1.7	-9.4	-4.7
MSCI World Growth	10.9	8.0	7.4	31.3	21.0	27.2
MSCI World Smaller Companies	15.4	12.3	11.7	11.7	3.0	8.3
MSCI Emerging Markets	9.2	6.4	5.8	18.4	9.2	14.7
MSCI AC Asia ex Japan	8.0	5.2	4.6	24.9	15.1	21.0
S&P500	11.0	8.0	7.6	17.5	8.3	13.8
MSCI EMU	20.2	17.1	16.5	6.5	-1.8	3.2
FTSE Europe ex UK	17.3	14.3	13.7	10.8	2.1	7.3
FTSE All-Share	16.4	13.4	12.7	-7.4	-14.7	-10.3
TOPIX*	11.4	8.5	7.9	11.1	2.4	7.7

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	0.4	-2.2	-2.8	8.0	-0.5	4.6
JPM GBI UK All Mats	2.8	0.1	-0.4	9.1	0.6	5.7
JPM GBI Japan All Mats**	0.4	-2.2	-2.8	3.6	-4.5	0.4
JPM GBI Germany All Traded	0.4	-2.2	-2.8	8.0	-0.5	4.6
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	3.0	0.3	-0.2	9.9	1.3	6.5
BofA ML US Corporate Master	2.7	-0.0	-0.6	9.6	1.0	6.2
2.8BofA ML EMU Corporate ex T1 (5-10Y)	4.0	1.3	0.8	11.9	3.1	8.4
BofA ML £ Non-Gilts	4.9	2.1	1.6	9.7	1.1	6.3
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	4.7	2.0	1.4	7.8	-0.6	4.4
BofA ML Euro High Yield	7.2	4.3	3.8	11.7	3.0	8.3

Source: Thomson Reuters DataStream.
Local currency returns in November 2020: *-11.1%, **0.0%.
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Source: Schroders, November 2020: The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

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