



## EQUITIES SURGE ON VACCINE NEWS



The MSCI global equity index enjoyed its best month on record as the removal of uncertainty surrounding the US Presidential election and the successful conclusion of Covid-19 vaccine trials spurred a sharp rally in markets. Eurozone sovereign bonds rose modestly, as narrower peripheral spreads in the more 'risk on' environment were slightly offset by higher core bond yields.

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### Investors digest a Biden victory

Despite President Trump refusing to concede the election and still trying to overturn the result, investors have accepted that Joe Biden has won and will be inaugurated as US President on 20 January. Clarity on the election outcome and the avoidance of disruptions from Trump supporters brought relief to investors. Meanwhile, the Democrats' failure to gain control of Congress by winning the Senate has significantly reduced the ability of Joe Biden to raise both corporate and income taxes, as he had proposed. This too boosted equity markets. Biden is less likely to escalate trade tensions, a factor that was also well received by markets. While the absence of a Democratic 'clean sweep' means that the previously anticipated fiscal package of up to \$3 trillion will not be implemented, a more limited programme of up to \$1 trillion (or 4.5% of GDP) is expected in the new year.

### Covid vaccine success

Results of Covid-19 vaccine trials were announced, proving to be significantly better than expected. Pfizer and Moderna indicated that their vaccines had been shown to be 90% and 94% effective, respectively, and if emergency approval is granted in December, both are likely to be distributed before year-end. With a full roll-out of these and other vaccines in the coming months, it has been predicted that up to 50% of the population in developed countries could be vaccinated before the middle of 2021, with up to 70% before the end of that year. This would facilitate more 'face to face' social and economic interactions and enable economic activity to return close to normal. It would also provide a substantial boost to the outlook for earnings and equity markets, and was a key driver of the gains seen in November.

### Brexit nears the endgame

Brexit talks continued without a trade deal being reached. Although there are still differences between the EU and UK, rhetoric from leading participants in the negotiations suggested progress has been made and that many of the key issues have been resolved. Expectations are that a deal will be reached before the EU Summit on 10/11 December, but with time running out before year-end, there are still risks of a 'no deal' outcome, with WTO tariffs being implemented from 1 January.

## CHART OF THE MONTH

### Global equities



Source: ILIM, Bloomberg. Data is accurate as at 1 December 2020

### Policymakers poised to do more, if needed

Among central banks, the US Federal Reserve left policy unchanged, but highlighted the downside risks to growth and noted an ongoing need for policy accommodation. Policymakers also suggested that there is scope to loosen policy further, if required. The President of the European Central Bank (ECB), Christine Lagarde, hinted that changes in the size of asset purchases and the terms of bank funding facilities in Long Term Refinancing Operations will be announced in December, although rate cuts are now seen as unlikely. The Bank of England announced a bigger-than-expected expansion of asset purchases of £150bn and indicated that it is ready to do whatever is needed to support the economy.

# MARKET ROUND-UP

## Equities

The MSCI AC World equity index rose 11.5% (9.4% in euro terms). Europe rose 14.2% (14.0% in euro terms), benefiting from the expectation of improving growth and the index's higher weighting to value stocks. The UK rose 13.1% (13.7% in euro terms), also supported by its higher weight to value stocks and growing hopes of a Brexit deal. Emerging markets underperformed, rising 7.8% (6.4% in euro terms). While positive vaccine news supported global equities, the requirement to store the two leading vaccines at extremely low temperatures means they may not be suitable for widespread distribution across emerging-market countries. Pacific Basin equities slightly underperformed, rising 11.1% (11.7% in euro terms), with Hong Kong lagging on renewed political tensions.

## Bonds

Eurozone >5-year bonds rose 0.2% as the German 10-year yield rose to -0.57%. Core global bond yields rose on the improved growth outlook linked to the positive vaccine news. Peripheral spreads, however, narrowed in the more 'risk on' environment, with Italian 10-year spreads falling to 120 basis points (bps) while Spanish spreads slipped to 65bps. Peripheral spreads were not affected by Poland and Hungary vetoing the confirmation of the EU Recovery Fund over the issue on the conditionality that any funding is subject to the rule of law. While this has slowed the approval process for the Recovery Fund, it is still expected to be passed in the coming months.

## Currencies & commodities

The euro rose against the US dollar to 1.1954 as the ECB appeared to rule out further interest rate cuts, while the dollar suffered from its perceived defensive characteristics. Commodities rose 12.0% (9.1% in euro terms) on the improving growth sentiment, while also benefiting from the weaker US dollar. West Texas Intermediate (WTI) oil rose 26.7% as OPEC considered delaying an easing of production cuts that are scheduled for the new year. Like the US dollar, gold fell -5.6%, given it is often seen as a safe-haven asset.

## Economic data releases

Hard activity data related to the third quarter continued to exceed expectations, leading to upgraded estimates of global growth to over 37% on an annualised basis. However, with the recent surge in global Covid-19 cases to new highs and the subsequent reintroduction of restrictions in Europe and the US, growth forecasts for the fourth quarter of this year and the first quarter of 2021 have been revised down. This is partly because of weaker regional manufacturing indices in the US, lower consumer confidence readings and rising weekly initial unemployment claims. In Europe, business sentiment surveys such as the purchasing managers' indices (PMIs) and IFO readings have been weak, particularly on the services side, which has been the sector most affected by the recent lockdowns. However, the global economy is expected to recover strongly in the middle of 2021, supported by ongoing fiscal and monetary stimulus and the widespread rollout of vaccines. As a result, the global economy is still expected to grow by 5% in 2021 following a contraction of 4% this year.

## MARKET SNAPSHOT

### Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2019 Return (%)
MSCI Ireland	7.09	4.66	40.60
MSCI United Kingdom	13.73	-20.30	23.40
MSCI Europe ex UK	14.04	0.25	28.20
MSCI North America	8.74	8.71	33.90
MSCI Japan	9.55	3.54	22.30
MSCI EM (Emerging Markets)	6.39	3.70	21.10
MSCI AC World	9.42	4.73	29.60

  

10-Year Yields	Yield Last Month (%)	2019 Yield (%)	2018 Yield (%)
US	0.84	1.92	2.68
Germany	-0.57	-0.19	0.24
UK	0.31	0.82	1.28
Japan	0.03	-0.02	0.00
Ireland	-0.26	0.11	0.90
Italy	0.63	1.41	2.74
Greece	0.64	1.43	4.35
Portugal	0.03	0.43	1.71
Spain	0.08	0.46	1.41

  

FX Rates	Current	2019 Rates	2018 Rates
US Dollar per Euro	1.20	1.12	1.15
British Pounds per Euro	0.90	0.85	0.90
US Dollar per British Pounds	1.34	1.33	1.28

  

Commodities (USD)	MTD Return (%)	YTD Return (%)	2019 Return (%)
Oil (WTI)	26.68	-25.75	34.50
Gold (Oz)	-5.36	16.76	18.90
S&P Goldman Sachs Commodity Index	12.04	-28.02	17.60

Source: ILIM, Bloomberg. Data is accurate as at 1 December 2020

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### THE ILIM VIEW – LOOKING AHEAD

The outlook for equity markets over the next 12 months depends on several factors, including the evolution of Covid-19, the scale of recovery from the first-half recession and the level of stimulus provided by global authorities.

Although equity markets are expensive in absolute terms, they are very attractive in relative terms, given the low yields available on assets such as bonds and cash. The current low level of bond yields justifies higher-than-average valuations in equities. We believe global equities can trade on a 12-month-forward price/earnings multiple of 18.5/19.0 times at the end of 2021. With the global economy in the initial stages of a new cycle, and with strong economic and earnings growth forecasts over the next two years, upside of at least mid-to-high single digits in global equities is expected over the next 12 months.

Potential risks to the positive outlook include a resurgence in Covid-19 cases and a failure to contain the virus; vaccines proving to be ineffective, which would threaten the improving growth backdrop; fiscal and monetary supports being reduced; or a significant rise in bond yields, which would diminish the relative valuation case for equities. We see the probability of these occurring as low. But volatility could remain a feature in markets if any of these issues become a cause for concern over the course of 2021.

### THE MONTH AHEAD

#### Economic data and political events to watch

##### Economic data releases

2 December	Japan consumer confidence (November)	16 December	UK's inflation rate (year on year, November)
4 December	US non-farm payrolls (November) US balance of trade (October)		Canada's inflation rate (year on year, November)
8 December	Australia business confidence (November) Germany's ZEW economic sentiment survey (December)	18 December	GfK consumer confidence (UK, December)
9 December	China inflation rate, (year on year, November) Germany balance of trade (October)	21 December	China's one-year loan prime rate
10 December	UK balance of trade (October) US inflation, year on year (November)	22 December	GfK consumer confidence (Germany, January)
15 December	Japan's balance of trade (November)	23 December	US personal income spending, month on month (November)
		24 December	US durable goods orders (month on month, November)
		31 December	China's manufacturing PMI (December)

##### Political events

Political events to watch: Deadline for UK-EU trade deal, electoral college confirms next US president and vaccines introduced across the globe



# Irish Life

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