THOMAS MILLER INVESTMENT

# Investment Commentary

**December 2020**

## Recent economic developments

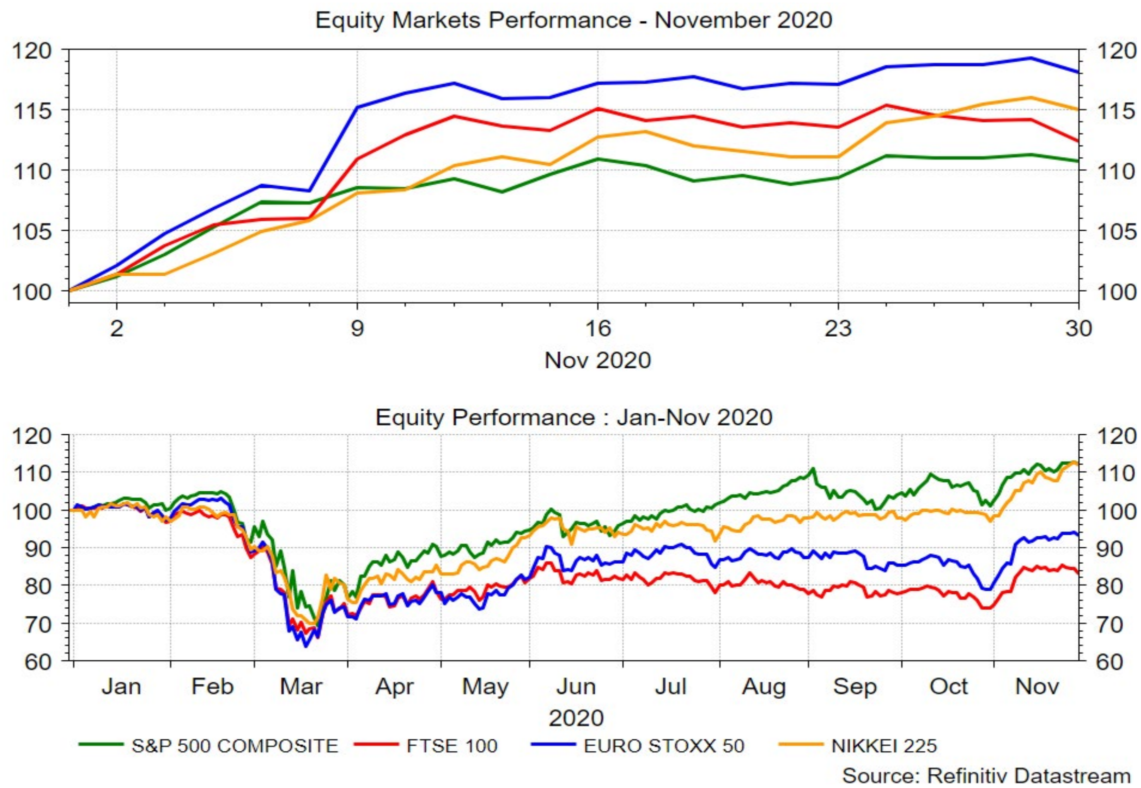
■ From a global economic perspective, November painted a mixed picture of underlying growth. In the US, the labour market saw some improvement, with a decline in the overall unemployment rate to 6.7% and a pick-up in average hourly earnings. There was also encouraging data from the housing sector with low interest rates continuing to boost activity.

■ In the UK the labour market was somewhat weaker, with a rise in unemployment to 4.8% and surveys suggesting a contraction in the services sector as renewed lockdowns impacted the overall level of activity in the economy. Given the deteriorating conditions in the UK, it is likely that high levels of monetary and fiscal support will need to be in place for some time.

■ Within financial markets, as illustrated in Chart 1, November proved to be a particularly strong month for equities with developed market indices gaining over 10%. News flow in November was initially dominated by the US presidential election. Perhaps unsurprisingly, the result was contested amidst allegations of voting fraud. However, as the month progressed so Republican support for this position waned. Whilst the prospect of a smooth transition of power was well received by markets, the main driver of equity strength in November was the announcement from Pfizer of the development of an effective Covid-19 vaccine. This provided a catalyst for a move higher as investors revised higher their expectations for economic growth in 2021.

■ Chart 1 shows the broad equity gains seen in November but also the high levels of divergence across regions over the course of 2020. US and Japanese markets have significantly outperformed European markets despite a slight reversal in this trend over the last month.

### Chart 1: Equity Markets Performance



■ Within equity markets, news of the vaccine saw renewed optimism within the financial, industrial and, in particular, the energy sectors, whilst utilities lagged. However, despite this recent turnaround, for 2020 to date the technology sector remains the main driver of US equity returns.

■ In the fixed income markets, there was little change in government bond yields despite the strong reaction from risk assets. There was some tightening of credit spreads, albeit from existing tight levels by historic standards. In the foreign exchange markets, November brought some dollar weakness and sterling strength as optimism for a trade deal between the UK and EU increased. In the month ahead, we can expect the culmination of these Brexit negotiations to drive volatility in sterling.

■ Within alternative investments, gold prices declined as broader risk assets strengthened. The price of WTI oil reversed the previous month's declines as the prospect of the vaccine rollout materialised, reflecting the expectation of increased economic activity in the year ahead. Global real estate and infrastructure also participated in the broad risk asset rally.

■ In terms of asset allocation, the ongoing economic recovery coupled with the emergence of a global vaccine programme leads us to be optimistic on the outlook for 2021. The supportive monetary policy backdrop would further suggest that financial markets could continue their recent upward momentum as we head into the New Year. However, there remains considerable uncertainty on the timeline for a return to economic normality. Given that a significant proportion of the recent good news is already priced into markets, we believe that it is prudent to position portfolios close to benchmarks in the near term.

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