

# THE BIG PICTURE OF GLOBAL ECONOMICS

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## Review of Asset Market Returns for 2020

### **Risk assets did well, considering the context.**

It is difficult to imagine a more challenging year for markets if one was to judge purely on the economic damage wrought by COVID-19. Nonetheless, most bellwether equity indices managed to post positive returns for the year. There were wide disparities at the sector and regional level as the combined effect of policy support and virus damage made for some big winners and big losers alike.

### **Major Asset Class Total Returns**

	<b>2020</b>	<b>Q4</b>
Global Equities	15.9%	14.0%
Global Bonds	9.2%	3.3%
Gold	25.1%	0.6%
Hedge Funds	6.6%	4.9%

Source: Bloomberg

In the biggest market, the US, the S&P 500 was up 18.2% in total return terms. The final quarter accounted for a gain of 12.6%.

For the year a whole, the technology sector was the clear winner. The Nasdaq index rose by 44% on the year, which drove the global technology sector's return to 43%. The outperformance of technology was notable in that it appears to have taken on some of the characteristics normally associated with defensive stocks. In the face of the pandemic's challenges, technology stocks have persuaded investors that their earnings stream is robust. Importantly, investors viewed the sector as more likely to be the beneficiary of the changed economic landscape post-Covid. Not surprisingly, the 20% decline in oil prices harmed the performance of energy stocks: the global energy sector was down by 31%

### Equity Market Total Returns

	2020	Q4
S&P500	18.2%	12.6%
Nasdaq	44.3%	16.6%
Russell 2000	20.0%	31.4%
Eurostoxx 50	-3.3%	11.6%
Japan	18.2%	16.0%
UK FTSE100	-12.4%	-14.4%
China CSI	28.4%	13.7%
Asia ex Japan	34.3%	31.9%
Russia	-20.3%	21.1%
Brazil	-20.0%	37.1%
India	14.2%	26.6%
<b>Developed markets (\$)</b>	<b>15.9%</b>	<b>14.0%</b>
<b>Emerging markets (\$)</b>	<b>18.3%</b>	<b>19.7%</b>
<b>Sectors</b>		
Global Banks	-14.2%	28.6%
Global Healthcare	14.7%	8.2%
Global Energy	-30.9%	30.3
Global Info tech	43.3%	14.3%
Global Industrials	8.6%	9.7%

Asian markets were closer to the US in performance terms, with some exceptions. Japanese stocks rose by 18.3% for the year, thanks to the strong Q4 (+19%). The China CSI 300 index rose 28.4% on the year, while the overall Asia ex Japan composite market was up 25.0%.

Source: Bloomberg

Outside the US, the laggards in regional rankings were Europe and the United Kingdom. The effect of Brexit and the uncertainty it brought might have been an issue, but more likely was the initial missteps made in Europe to contain the spread of the virus. The UK's FTSE index was down 12.4% on the year, and the European Stoxx 50 index lost 3.3%. Contributing to the UK and

Europe's weak performance was the poor performance of the financials particularly the banks.

One outlier in the Asian region was Singapore down 8.5%, where the large concentration in financials, property and energy combined to mute returns. If the strong rebound in the last quarter is anything to go by, the worst is probably over, and the recovery trade will have legs.

### Bonds

The last quarter of 2020 was good for most risky assets, and credit bonds were no exception. Much as is the case in the equity markets, the gains in credit markets have been very well-supported by ample liquidity and the perception of government support for economies.

### Bond market Total returns

<b>Government Bonds</b>	<b>2020</b>	<b>Q4</b>
US Government Bonds	8.00%	-0.83%
Global Government bonds	9.50%	3.19%
Global Index Linked	12.70%	4.19%
EM aggregate bonds	6.52%	4.50%
<b>Credit</b>		
USD Investment Grade	9.89%	3.05%
USD High Yield	7.11%	6.45%
EM High Yield	4.25%	8.05%
EM Local currency	7.55%	6.44%
Global Aggregate negative Yielding	8.02%	4.05%

Source: Bloomberg

In the blue-chip category, **US investment-grade bonds** (all quoted numbers are for the relevant Bloomberg Indices) returned 3.05% for the final quarter, to bring the year's gain to 9.9%. The fourth quarter's final push took IG bonds past the returns for the overall US Treasury index for the full year, given treasuries lost 0.82% in the last quarter as yields started to drift marginally higher. Spread compression drove credit returns. For the start of 2021, the market's expectation of continued government support is still likely to be the primary driver of some further spread compression in credit markets.

**In the high yield market**, the final quarter was a strong one, given the return of 6.45% to get the year's total to 7.11%. Within the asset class, it was noticeable that there was a wide disparity in performance depending on the underlying bonds' credit quality. Weaker credits had a poor 2020 in relative terms: CCC-rated bonds returned only 2.3%, with BB bonds at 10.1%. However, across the board, the lower quality credits had a much stronger end to the year.

**Emerging market bonds broadly mirrored other credit markets with a strong finish to year** despite the existential crisis earlier in 2020. There was also an evident divide between the

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stronger and weaker areas, both in credit quality and regionally. The overall performance in emerging market high yield of 4.25% masks the fact that BB-rated bonds gave 11.95%, whereas the CCC and lower buckets were in deeply negative territory, ranging from -15% to -32%. The outlook for this asset class is positive, as the spread compression has room to run further. The conclusion is that investor' selectivity is critical, and will continue to pay.

**An interesting curiosity of the bond return profile of 2020 was the positive return posted by negative-yielding bonds, in USD.** Bloomberg has an index that calculates the return on bonds that have a negative yield. For 2020, the index returned 8%, the same as the US Treasury index. It serves to underscore the simple point that some investors still have to grasp about government bonds in a low-yield environment: they are there for risk hedging, not interest rate carry. Even negatively yielding bonds have their value!

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