A MOMENT IN MARKETS – MUCH HAS HAPPENED SINCE THE US ELECTIONS

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The macro forces at play

November is turning out to be an eventful month in markets. The following five forces are proving to be the key macro drivers for movements in asset classes:

1. The dissipation of US election uncertainty has settled nerves. The CBOE Volatility Index has eased to around 23[1] from the recent peak of over 40 in October, which was its highest reading since June.

2. Promising vaccine trial results from Moderna have followed those from Pfizer and BioNTech to give markets hope of 'normalcy' in 2021.

3. China's recently announced 14th 5-year plan for the period 2021-2025 places a renewed emphasis on science and technology to drive the next phase of growth for the country.

4. Leaders from 15 Asia-Pacific countries including China, Japan, and Australia have signed a trade agreement following eight years of negotiations paving the way for greater economic cooperation.

5. Covid cases continue to rise in many countries and markets are bracing themselves for another dip in economic activity in Q4 before things get better again, particularly for Europe where lockdowns have become tighter.

The impact on markets

While headwinds from rising Covid infections are keeping the rally in check, tailwinds behind risk assets have generally been more forceful so far in November (see table below).

Asset Class	November Move
S&P 500 Index	+10.9%
S&P China 500 Index	+4.9%
MSCI Emerging Markets Index	+9.0%
MSCI AC Asia Pacific Index	+9.3%
Bloomberg Industrial Metals Subindex	+5.5%

Source: Bloomberg, data as of 17 November. All price returns are in USD.

Historical performance is not an indication of future performance and any investments may go down in value.

The macro forces noted above are driving the following key market movements:

1. US equities: Sectors distressed due to the pandemic have made the largest gains so far in November on account of the 'economic recovery' trade. Within the S&P 500 Index, largest gains have been made by energy – on improving prospects for oil prices; financials – on better credit conditions as the economy recovers; and industrials – on expectations of a pick-up in demand[2].

2. Chinese equities: Chinese markets have been buoyed by a combination of 1. Robust Q3 economic data; 2. The new 5-year plan; and 3. The new Asia-Pac trade deal. The recent strength in Chinese stocks has also permeated across to emerging market (EM) equities, on account of China's weight in EM indices. Asia-Pacific stocks, already spurred by a relatively less pervasive second wave of Covid in the region compared to Europe, have been catalysed further by the trade deal.

3. Industrial metals: China's focus on inducing growth through technological innovation inevitably bodes well for the raw materials needed to fulfil its aspirations, i.e. industrial metals. For example, China accounts for more than half of global copper demand[3] and has, since June, been importing the base metal at meaningfully higher levels than the preceding 5-year range[4]. Copper prices have made strong gains as a result.

Sources

[1] as of 17 November

[2] Bloomberg, data as of 17 November 2020

[3] Statista, data as of 08 June 2020

[4] Bank of America, data as of 09 November 2020

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