# A MOMENT IN MARKETS – THE ROLLERCOASTER RIDE CALLED 2020

Mobeen Tahir – Director, Research
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From the sharp dive in March to the bunny hops in September and October, market participants have had quite a ride so far in 2020. Here are the key G-forces that have influenced the trajectory of asset prices this year:

**Growth outperformance exacerbated by the pandemic**

Growth stocks started outpacing value notably in 2019 as the dominance of the tech sector became more entrenched[1]. This trend has continued in 2020 – evident from the divergence between the MSCI World Growth and MSCI World Value indices – as the tech sector has benefited from the ‘stay at home’ trade preferred in equities since March. While tech strength is unlikely to be transient, distressed sectors are expected to recover if a vaccine allows the global economy to heal in the year ahead. Value has outpaced growth month-to-date in November but still has a lot of catching up to do.

**The search for yield in fixed income**

The search for yield has become an even bigger challenge this year than before. With central banks like the US Federal Reserve (Fed) expanding their balance sheets to record highs, government bond prices have been supported but yields have, therefore, fallen to record lows. Monetary policy is likely to remain largely accommodative in the year ahead even if the pace of expansion in money supply slows. This means that yields could stay low, but price gains in bonds could become slower. Bond investors may seek to enhance the yield of their fixed income portfolios by taking positions in investment grade government bonds that offer slightly higher yields but do not add a disproportionate amount of risk by compromising on fundamentals.

**Silver – the most precious of them all**

Silver, sometimes seen as a leveraged play on gold, has lived up to that reputation this year. Gold has benefitted from safe-haven demand in the face of economic uncertainty and currency devaluation this year. It now stands at the cusp of becoming more of an inflation hedge going forward as the global economy recovers. Silver, in addition to its strong correlation with gold[2], also stands to potentially benefit from increasing demand in industrial applications[3]. These include electronics, medical equipment, and fast-growing technologies including solar power and electric vehicles.

**A more ‘solid’ cyclical recovery**

A lower drawdown in March and a steady recovery since then means that industrial metals have comfortably left European and UK equities behind and are in a neck and neck race with US equities. While broad equity sectors have faced headwinds from numerous struggling sectors, base metals have benefitted from a cyclical recovery in manufacturing activity, a weak US dollar, and an uptick in demand from China. Copper has led the pack among industrial metals on account of China's elevated levels of copper imports so far in 2020[4]. A 'return to normal' for the global economy and China's focus on science and technology in its recently announced 5-year plan for 2021-2025 could bode well for industrial metals.

[1] 'Growth' stocks are those that are considered to have the potential to outperform the market because of their future prospects. 'Value' stocks are those that are considered to be trading below that they are worth giving them the potential to make gains. Value stocks typically trade at lower valuation multiples (e.g. price to book ratio) than growth stocks. As of 20 November 2020, the MSCI World Growth Index is up around 24% (in USD) while the MSCI World Value Index is down around 8% (in USD).

[2] Around 0.7-0.8 since 1990. Source: WisdomTree, as of 20 November 2020.

[3] More than 50% of silver demand is in industrial applications. Source: Silver Institute as of November 2020

[4] Since June, China's imports of refined copper and products is well above the prior 5-yr range. Source: Bank of America as of 09 November 2020.

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