Sanlam Wealth

The noise, the numbers & the nuance

Weekly Market Update | 06 November 2020

Welcome to our weekly newsletter, where we summarise the key market developments over the last seven days

The noise

- At the time of writing Joe Biden looks set to become the next President of the United States as the race now centres on a few key states which have not yet reported. It seems the likely result is a Biden victory but one in which the Democrats do not have the level of control in the Senate they would need to pass many of the policies they wish to. Meanwhile, Trump has launched a series of legal actions baselessly suggesting that the ongoing counting of votes is illegitimate in a number of states.

- After weeks of mounting pressure, UK Prime Minister Boris Johnson announced on Saturday that England would enter a second national lockdown which began yesterday in the hopes of saving Christmas. UK Chancellor Rishi Sunak announced yesterday that the furlough scheme will be extended across the UK until the end of March. The scheme will pay up to 80% of a person's wage up to £2,500 a month.

- Markets have responded favourably to the dispersion of uncertainty surrounding the election this week. Given the likely result of a Biden victory albeit with limited power in the Senate, the next President is unlikely to be operating from a position of strength. As the nuance explains, this is perhaps the most market-friendly result and global stocks have reacted accordingly this week as evidenced by the sea of green in the 1 Week chart below.

The numbers

GBP Performance to 05/11/20	1 Week	YTD
Equity GBP Total Return (MSCI)		
UK (MSCI UK)	6.0%	-21.0%
Europe (MSCI Europe)	7.2%	-5.3%
US (MSCI USA)	4.5%	13.3%
Japan (MSCI Japan)	2.1%	4.4%
Emerging Markets (MSCI Emerging)	2.6%	8.0%
Fixed Income GBP Total Return		
UK Government (Barclays Sterling Gilts Index)	-0.5%	7.9%
Investment Grade Hedged (Barclays Global Aggregate Corporate Bond Index)	0.9%	5.7%
High Yield Bonds Hedged (Barclays Global High Yield Index)	2.0%	0.0%
Currency moves		
GBP vs USD	1.7%	-0.8%
GBP vs EUR	0.4%	-6.0%
GBP vs JPY	0.6%	-5.6%
Commodities GBP return		
Gold (in £)	2.6%	29.5%
Oil (in $)	5.7%	-30.4%

Source: Bloomberg, data as at 05/11/2020

The nuance

As it stands, Joe Biden is likely to close the gap and win the US election. However, with the Republican party performing better than expected in the Senate, Biden will do so without the majority necessary for the Democrats to achieve the unencumbered mandate they would have needed to implement many of their policies. This is actually good news for markets.

Biden's plans to raise taxes, strengthen the regulation of US tech firms, and fiddle with the healthcare system were a potential threat markets had priced in prior to this week's outcome. With these threats subsiding, technology and healthcare stocks have rallied this week. Trump's failure to achieve re-election brings the likely respite from US-China trade tensions, another positive for markets.

As the political landscape in Washington heads towards stability, the much debated US stimulus bill is likely to materialise in the coming months. One thing that the Democrats and Republicans can agree on is that some sort of fiscal injection will be necessary to ail the US economy. The passing of this bill, strongly supported by the monetary powers of the US Federal Reserve, is likely to provide further confidence to investors.

With broad-based confidence in markets this week, many of our holdings have benefited from the rally. With markets up, the prospects across the asset classes are largely unchanged; the only difference being that investors have gained some clarity on what the next four years holds for the US.

Portfolio activity

Having topped up across a number of names in response to market weakness last week, our portfolios have benefited significantly from investor optimism this week as uncertainty has waned. Tech names Alphabet (Google owner; +13%), Microsoft (+9%), RELX (+9%) and Facebook (+5%) have benefited in the last week in particular from the reduced threat of regulatory pressure.

The IPO of Ant Group (which is 33% owned by Alibaba) was due to commence yesterday but Chinese authorities delayed proceedings. On the announcement of the delay, Alibaba shares fell around 8%, despite our view that the IPO is still ultimately likely to go ahead. The company remains exceptionally well positioned, reported results that show continued growth and success, and provides us with attractive emerging market exposure. We added to the position in response to the pullback which provided us with an attractive entry point from which returns can compound.

Having made the decision a few weeks ago to sell out of our government bond holdings, we have taken further steps this week to implement that decision. With historically low yields, sovereign bonds are set to deliver at best negligible returns and fail to provide the diversification benefits for which they previously earned their way into portfolios. We invested in short-dated bonds issued by car manufacturer Ford and financial services firm Irish Life, which will form rungs on the bond ladder we are constructing. We are comfortable with the credit-worthiness of the issuers and ownership of these assets will result in a pick-up in yield within the fixed income component of our portfolios.

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