World markets review — Fourth quarter 2020

Equities

Global stocks advanced as the rollout of coronavirus vaccines and additional government stimulus measures boosted investor sentiment across the board. All major sectors in the MSCI World Index generated positive returns, reflecting a brighter outlook for the global economy. Gains were tempered by rising COVID-19 outbreaks, prompting new lockdowns in some countries.

Energy and financial stocks led the rally as investors moved into sectors that had suffered the biggest losses earlier in the year. Industrials and materials stocks also rose sharply amid expectations of a robust economic rebound in 2021. Consumer staples and health care stocks lagged the overall market as cyclical sectors took center stage.

	December 2020		4Q 2020		YTD 2020	
Equity index returns (%)	**U.S. dollar**	**Local currency**	**U.S. dollar**	**Local currency**	**U.S. dollar**	**Local currency**
S&P 500	3.8	3.8	12.1	12.1	18.4	18.4
MSCI ACWI	4.6	3.8	14.7	12.8	16.3	14.2
MSCI ACWI ex USA	5.4	3.5	17.0	12.6	10.7	6.0
MSCI World	4.2	3.5	14.0	12.4	15.9	13.5
MSCI Emerging Markets IMI	7.4	6.1	19.9	16.1	18.4	19.2
MSCI EAFE	4.6	2.5	16.0	11.4	7.8	0.8
MSCI Europe	4.7	2.2	15.6	10.3	5.4	–2.2
MSCI Pacific	4.5	2.8	16.7	13.2	11.9	6.2

Source: RIMES

Fixed income

U.S. corporate bonds rose amid a search for yield in an environment of ultra-low interest rates. U.S. Treasury bonds declined as the Federal Reserve indicated that its zero-bound rate policy would remain in place for the foreseeable future. The European Central Bank, meanwhile, vowed to significantly increase its bond-buying economic stimulus program.

In foreign exchange markets, the U.S. dollar fell against the euro, the yen and most other currencies. The British pound, in particular, enjoyed a strong rally as Brexit negotiators approved a new agreement governing the trade relationship between the United Kingdom and the European Union.

Fixed income index returns (%)	Dec 2020	4Q 2020	YTD 2020
Bloomberg Barclays U.S. Aggregate	0.1	0.7	7.5
Bloomberg Barclays Global Aggregate	1.3	3.3	9.2
Bloomberg Barclays U.S. Corp IG	0.4	3.0	9.9
Bloomberg Barclays U.S. Corp HY	1.9	6.4	7.0
JPM EMBI Global Diversified	1.9	5.8	5.3
JPM GBI-EM Global Diversified	3.5	9.6	2.7

Exchange rates (% change vs. USD)	Dec 2020	4Q 2020	YTD 2020
Euro	2.3	4.3	9.0
Japanese yen	1.0	2.2	5.3
British pound	2.4	5.7	3.2
Canadian dollar	1.7	4.8	1.8
Australian dollar	4.7	7.7	9.8
Swiss franc	2.4	3.9	9.5

Source: RIMES. Returns are in USD.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

North America

U.S. equities soared as multiple COVID-19 vaccines were approved and Congress agreed on a coronavirus relief package. The energy and financials sectors had the highest returns, pushing major indexes to record levels. The Standard & Poor's 500 Composite Index rose 12% while the Nasdaq Composite Index advanced 16%. Small-cap stocks had their best quarter ever on record, lifting the Russell 2000 Index 31%. The U.S. dollar fell sharply against most major currencies.

COVID-19 cases surged in the U.S., leading local governments to enforce some of the tightest restrictions on business and recreation since the spring. The U.S. economy had grown at an annualized 33.4% in the third quarter, but the subsequent spike in infections threatened to slow the recovery. In the final week of the year 787,000 Americans filed for unemployment benefits – the lowest total in four weeks, but still well above pre-pandemic highs.

Congress passed a $900 billion stimulus bill to help offset some of the pandemic's economic impact. The relief package included $600 direct payments and $300 weekly unemployment subsidies for individuals. It also provides stimulus for hard-hit industries such as airlines, as well as $325 billion to protect small businesses.

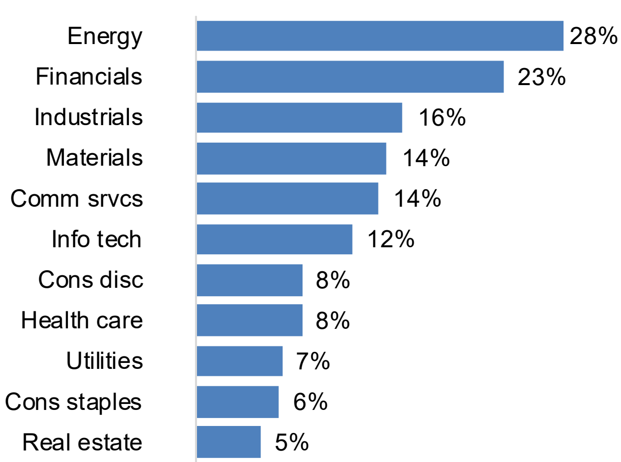
The shift to online shopping supported U.S. retail sales during the key holiday season. E-commerce sales jumped 49% from last year, boosting the shares of payments companies. PayPal advanced 19%, while Visa gained 10%. Disney also benefited from the move toward more digitization. Its shares rose 46%, helped by the Disney+ streaming service's growing content library and subscriber base.

Energy was the top-returning sector, gaining 28% on hopes that a successful vaccine rollout could lead to a resumption of travel and more demand for oil. West Texas Intermediate crude oil prices surged 21%, rising to levels last seen in March. Shares of ExxonMobil rallied 23%.

Financials climbed 23%. Banking stocks traded higher after the Federal Reserve announced it would allow the largest banks to resume share buybacks. Shares of JPMorgan Chase, Bank of America and Citigroup rose 33%, 27% and 45%, respectively.

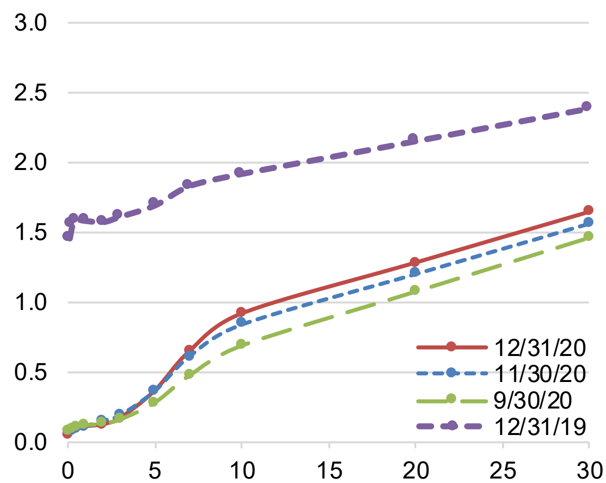
U.S. fixed income markets posted another quarter of gains, boosted by the rollout of COVID-19 vaccines, passage of an economic stimulus bill, and some clarity around the U.S. election. The Fed left interest rates at near-zero at its December meeting, and pledged to continue buying government-backed debt for the foreseeable future. The Treasury yield curve steepened, with the 10-year yield ending the quarter at 0.92%, up 8 basis points from September 30.

S&P 500 total returns (QTD)



Source: RIMES

U.S. Treasury yield curve (%)



Source: Bloomberg

Europe

European stocks rallied as investors cheered COVID-19 vaccine rollouts and a long-awaited Brexit trade deal. Gains were tempered, however, by rising infection rates that prompted a new round of lockdowns in some European cities. Wrapping up a year marked by extreme market volatility and economic dislocation, the MSCI Europe Index registered a quarterly gain of more than 10% in local currency terms and nearly 16% in U.S. dollar terms.

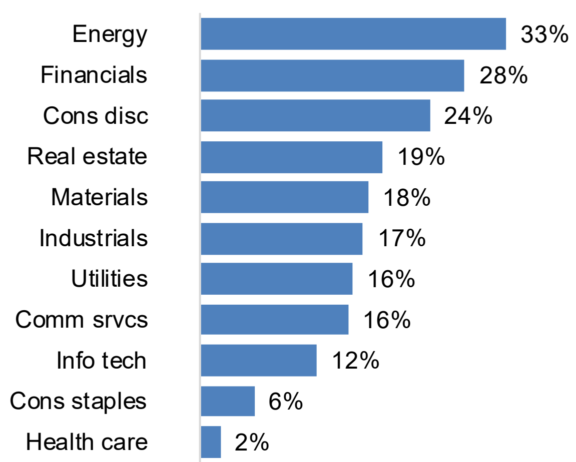
Facing a December 31 deadline, Brexit negotiators hammered out a broad agreement governing the United Kingdom's new trading relationship with the European Union. The announcement sent the British pound soaring as the threat of a "no-deal Brexit" — which would result in a reversion to less favorable rules under the World Trade Organization — was narrowly avoided in the final days of 2020.

Most sectors moved higher amid expectations that widespread COVID-19 inoculations may enable Europe's economy to return to some degree of normal by mid- to late 2021. Economically sensitive stocks posted the largest gains, highlighted by a 26% rise in the previously hard-hit energy sector. Shares of BP, Royal Dutch Shell and Total enjoyed double-digit increases as global oil demand slowly recovered. Financial stocks also rallied, led by the U.K.'s HSBC, Spain's Banco Santander and Germany's Allianz.

Health care stocks declined, hurt in part by concerns about industry consolidation. Shares of AstraZeneca fell as investors frowned on the drug giant's announced $39 billion acquisition of rare-disease specialist Alexion Pharmaceuticals. Shares of Bayer and Sanofi also lost ground during the quarter. Among technology stocks, SAP shares dropped sharply after the German software bellwether cut its 2020 revenue forecast amid a pandemic-related decline in demand for its business relations and customer management software.

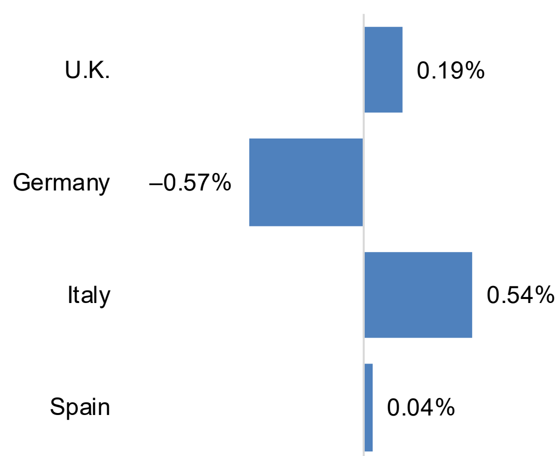
In fixed income markets, eurozone government bonds advanced as the European Central Bank ramped up its bond-buying economic stimulus efforts. ECB officials announced in December that the bank will increase the amount of its pandemic emergency purchase program to €1.85 trillion from €1.35 trillion. The yield on Germany's benchmark 10-year note, already in negative territory, declined by 5 basis points to –0.57%. Similar maturities in Italy fell 33 basis points to end the quarter at 0.54%. In currencies, the euro rose 4% against the dollar.

MSCI Europe total returns (QTD)



Source: RIMES. Returns are in USD.

10-year government bond yields



Source: Bloomberg

Asia-Pacific

Asia-Pacific stocks surged on expectations of economic recovery. The MSCI Japan Index rose 15% and the MSCI Pacific ex Japan Index added 20%. Most Japanese sectors advanced, led by materials, information technology and consumer discretionary. The Japanese yen rose 2% against the U.S. dollar.

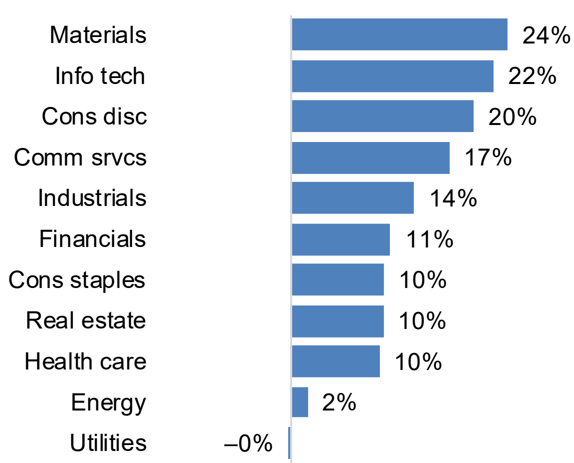
Japan's economy expanded, but exports remained weak. Gross domestic product rose an annualized 22.9% in the third quarter from the prior quarter, the first expansion in a year. The Bank of Japan's fourth-quarter Tankan survey of manufacturers improved to –10 from –27 in the prior quarter, suggesting that pessimism about future business conditions is ebbing. November retail sales rose 0.7% from a year earlier, a second consecutive monthly gain. Exports fell 4.2% in November, the 24th consecutive month of year-over-year declines. Japan was among 15 Asia-Pacific nations that signed the Regional Comprehensive Economic Partnership, a trade agreement covering about one-third of the world's population and economic output.

Policymakers ramped up stimulus. The Japanese government unveiled a third round of fiscal stimulus worth ¥30.6 trillion, while the Bank of Japan extended its program of asset purchases and zero-interest bank loans by six months to September 2021. The BOJ cut its economic growth forecast for the current fiscal year to –5.5% from –4.7%, but it sees a 3.6% expansion next year, up from a previous forecast of 3.3%. Core inflation sank to –0.9% in November.

Hong Kong's economy showed signs of stabilizing. The IHS Markit Hong Kong PMI rose to 50.1 in November — the highest reading in nearly three years — from 49.8 in October. GDP fell 3.5% in the third quarter from a year earlier, but it rose 2.8% from the prior quarter, helped by a strengthening economy in mainland China. Retail sales fell 4% in November, the smallest decline since mid-2019. The MSCI Hong Kong Index rose 15%.

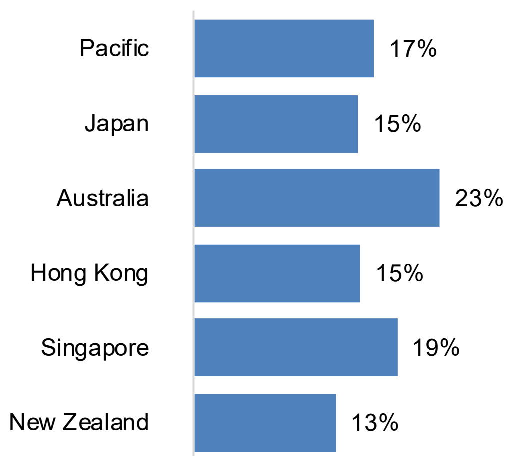
Australia pulled out of recession. The economy expanded by 3.3% in the third quarter, ending the first recession in nearly 30 years. But Australia faces a spiraling diplomatic and trade dispute with China, its largest trading partner, which has targeted Australian exports including wine, barley and copper. The Reserve Bank of Australia cut the cash rate and target yield on three-year government bonds to 0.10% from 0.25% and announced plans to buy A$100 billion of government bonds over six months. The MSCI Australia Index rose 23% and the currency surged 7.7% against the U.S. dollar. The MSCI New Zealand Index gained 13% as Prime Minister Jacinda Ardern was elected to a second term. The MSCI Singapore Index added 19%. Singapore's economy contracted by 3.8% year over year in the fourth quarter, but it expanded 2.1% from the prior quarter, according to government estimates.

MSCI Japan total returns (QTD)



Source: RIMES. Returns are in USD.

MSCI Pacific total returns (QTD)



Source: RIMES. Returns are in USD.

Emerging markets

Emerging markets stocks posted their strongest quarterly returns in more than a decade, boosted by China's economic rebound, stronger commodity prices and a weaker dollar. The MSCI Emerging Markets Investable Market Index rose 20%, led by gains in the information technology and materials sectors.

Semiconductor companies powered the index higher, in part due to supply chain concerns. Shares of Korean technology giant Samsung Electronics surged 51%. The maker of memory chips and electronics reported a strong quarterly profit, the result of emergency chip orders from Huawei and broader demand from China. Taiwan Semiconductor Manufacturing gained 27%. The world's largest contract chipmaker posted better-than-expected quarterly earnings on demand for chips used in 5G smartphones and other applications. Korean chipmaker SK Hynix also rose.

Cyclical stocks rallied. The materials sector soared 30%, led by Brazilian iron ore supplier Vale, which climbed 61%. Broadly speaking, the financials sector rose 24%. Indian housing lender HDFC and private sector bank ICICI Bank rose 48% and 52%, respectively; meanwhile, Russia's Sberbank gained 36% and Chinese financial services provider Ping An Insurance rose 19%.

The MSCI Brazil IMI produced its biggest quarterly return since 2009, lifted by gains from energy giant Petrobras and leading banks Itaú Unibanco and Banco Bradesco. Brazil's economy bounced back in the third quarter, growing 7.7% compared with the April-to-June period. Overall, commodity-exporting Latin American countries posted strong quarterly returns after lagging most Asian countries earlier in 2020.

Stocks in China advanced as the country's economy rebounded. Some of the biggest gains came from providers of internet services platforms. Shares of shopping and delivery services firm Meituan rose as it beat consensus sales expectations. Shares of e-commerce upstart Pinduoduo surged 140%. The company reported more than $2 billion in quarterly sales. However, technology giant Alibaba slid 21% amid new government scrutiny regarding the business practices of large internet platforms. China's government also nixed the initial public offering of Alibaba fintech affiliate Ant Group, a deal that was expected to be the world's largest IPO ever.

Both local currency and U.S. dollar-denominated emerging markets debt rose. With very low yields in developed markets, investors flocked to higher yielding government debt in places such as Mexico and South Africa. In currency markets, the South African rand appreciated the most against the U.S. dollar. ■

Quarter-to-date total returns (%)

Equity indexes (USD)	
MSCI Emerging Markets IMI	19.9
MSCI Brazil IMI	36.4
MSCI China IMI	11.4
MSCI India IMI	20.9
MSCI Mexico IMI	31.1
MSCI Russia IMI	21.4
MSCI South Africa IMI	23.1
MSCI Korea IMI	36.4
MSCI Taiwan IMI	22.1

Fixed income / currency	USD debt (USD)	Local debt (USD)	Local debt (Local)	Exchange rate (vs. USD)
JPM EMBI Global Div	5.8	---	---	---
JPM GBI-EM Global Div	---	9.6	2.8	---
Brazil	6.5	11.8	3.0	8.5
Indonesia	3.2	13.0	6.7	5.9
Malaysia	3.3	4.1	0.7	3.3
Mexico	12.8	15.5	4.3	10.8
Poland	0.3	4.6	0.8	3.8
South Africa	12.5	21.3	6.8	13.6
Turkey	12.3	6.2	2.4	3.7

Source: RIMES

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Certain market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

Unless otherwise noted, all returns are in U.S. dollars and assume the reinvestment of dividends. Country stock returns are based on MSCI indexes.

Bloomberg Barclays indexes are unmanaged, and results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

Bloomberg Barclays U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market.

Bloomberg Barclays Global Aggregate Index represents the global investment-grade fixed income markets.

Bloomberg Barclays U.S. Corporate Investment Grade Index represents the universe of investment grade, publically issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements.

Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index covers the universe of fixed-rate, non-investment-grade debt. The index limits the maximum exposure of any one issuer to 2%.

Dow Jones Industrial Average is a price-weighted average of 30 actively traded industrial and service-oriented blue chip stocks.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds.

J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

MSCI All Country World Index (ACWI) is designed to measure results of more than 40 developed and emerging equity markets.

MSCI All Country World (ACWI) ex USA Index is designed to measure equity market results in the global developed and emerging markets, excluding the United States.

MSCI EAFE® (Europe, Australasia, Far East) Index is designed to measure developed equity market results, excluding the United States and Canada.

MSCI Emerging Markets Investable Market Index includes large, mid-cap and small-cap segments, targeting a coverage range of close to 99% of more than 20 emerging equity markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Investable Market Index.

MSCI Europe Index is designed to measure developed equity market results across 15 developed countries in Europe.

MSCI Pacific Index is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore.

MSCI World Index is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States.

Nasdaq Composite Index is a broad-based market-capitalization-weighted index that measures all domestic and international-based common-type stocks listed on The Nasdaq Stock Market.

S&P 500 Index is a market-capitalization-weighted index based on the results of 500 widely held common stocks. This index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

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