Markets Get a Booster Shot
Monthly Market Commentary
November 2020

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- Global equity markets shot higher on a series of encouraging vaccine-related announcements. U.S. stocks performed exceptionally well compared to historical returns, but lagged domestic equities and the developed world in general.
- In the U.S. general election, Joe Biden was declared the winner of the presidential race in early November. Most candidates from the Republican Party performed better in their races for state- and national-level offices compared to President Trump's quest for a second term.
- We sense that the next few months of what has already been an eventful year could prove critical to the future course of the global economy and financial markets.

Economic Backdrop

Despite a U.S. presidential election that featured the highest turnout rate in 120 years, and 11th-hour negotiations between Europe and the U.K. as the real-and-final Brexit Day ticked ever closer, the most pivotal developments in November were the promising results of clinical trials for a short list of COVID-19 vaccines.

The series of vaccine-related announcements injected great enthusiasm into equity markets around the world. European and U.K. stocks led the way, with the MSCI Europe Index and MSCI United Kingdom Index posting their best one-month returns since 1975 and 1981, respectively. The MSCI Japan Index had a record-breaking month as well, nearly doubling their *annualized* return over the last decade. U.S. stocks also performed exceptionally well, but lagged most of the developed world including Canada. Emerging-market equities trailed developed markets, as China's relatively subdued returns masked a huge rally by Latin America, reversing their roles from October.

U.S. Treasury rates fell slightly across most maturities, with the longest-term rates declining furthest. U.K. and eurozone government-bond rates increased across all maturities, led by intermediate-term rates. The West-Texas Intermediate crude-oil spot price rose by 27% during November, hitting the highest level since February after declining in late October as lockdowns were reintroduced.

The UK's share of positive COVID-19 tests (that is, positive tests as a percentage of all tests administered) peaked in early November and began to improve by the middle of the month, after an accelerated climb that started in early October forced a return to lockdown conditions. France's situation looked more perilous—its share of positive tests spiked in late October after rising steadily since mid-Summer—but began to improve sharply in mid-November as a result of France's decision in October to re-impose lockdowns. The increase in Germany's share of positive tests began later—at the beginning of October—but continued to rise slowly through late November, even as the metric had begun to fall in the U.K. and France. In the U.S., the climb in its share of positive tests lagged that of France by about a month, with a worrying acceleration through most of November followed by a jump even higher during the last week of the month.

The U.S. general election produced a dismissal of Donald Trump's administration. Most candidates from the president's Republican Party performed better in their races for state- and national-level offices compared to his quest for a second term. Former Vice President Joe Biden was declared the winner of the presidential race in early November by the Associated Press (which serves as the traditional, if not formal, arbiter of U.S. presidential election outcomes).

A multi-week vote-certification process continued on a state-by-state basis through the end of November, further formalizing Biden's win, which will be made official in mid-December when state-level electors cast votes in accordance with the certified results of each state's popular vote. Nevertheless, President Trump's campaign persisted in contesting the results of the election in a handful of states where Biden had relatively small margins of victory—demanding recounts, requesting that courts throw out specific types of ballots, and asking judges to invalidate state-wide election results in favour of allowing Republican-majority state legislatures to select the winner of the presidential race. The legal effort to alter the election's outcome remained unsuccessful through the end of November.

Negotiations between the U.K. and EU over a post-Brexit trade agreement were being conducted face-to-face in London at the end of November. At this point, even if both sides agreed to a deal, there would no longer be adequate time for it to be approved by each government's respective parliament and then implemented by January 1 without creating disruptions. The sticking points remained on fishing rights, state aid to businesses, and cross-border dispute resolution.

The Regional Comprehensive Economic Partnership (RCEP), a free-trade group composed of 15 Asia-Pacific countries including China, was formalized in mid-November. RCEP nations have a combined population of 2.2 billion people and produce about one-third of global gross-domestic product, representing the most expansive free-trade area on the planet.

Economic Data

- According to Statistics Canada, the rate of inflation (as measured by the change in the Consumer Price Index (CPI)) increased 0.3% and 0.7%, respectively, for the month and year ending October. Producer prices were mixed: the Industrial Product Price Index (IPPI) slipped 0.4% in October, while the Raw Materials Price Index (RMPI) was up 0.5%. Over the past 12 months, producer prices remained weak; the IPPI increased 0.7% while the RMPI fell 0.3%. Prices for petroleum and energy have generally remained soft, meanwhile lumber prices have recently eased after a strong year of price increases. The unemployment rate improved by 0.4%, falling to 8.5%, despite employment gains slowing to 62,000 in November.

- U.S. manufacturing growth continued at a robust pace in November, and an early report of services activity showed an acceleration of already-strong growth for the month. New U.S. claims for unemployment benefits bottomed in early November to just above 700,000 applications per week, and then rose for two consecutive weeks. The overall U.S. economy grew at a 33.1% annualized rate during the third quarter of 2020.

- U.K. manufacturing growth strengthened in November, accelerating after cooling off in September and October. An early report of U.K. services activity showed October's modest growth giving way to a contraction in November. U.K. mortgage lending declined in October; but at £4.29 billion, it represented the second highest figure since March. Meanwhile, U.K. consumer credit contracted by £590 million in October, the second straight monthly decline. The overall U.K. economy grew by 15.5% during the third quarter, but contracted by 9.6% year over year.

- Eurozone manufacturing growth remained healthy in November, despite easing from October's pace. The eurozone services sector contracted further in November, according to a preliminary report. Growth in loans to non-financial corporations dipped below 7% in October for the first time since April. The overall eurozone economy grew by 12.6% during the third quarter, but contracted by 4.4% year over year.

Central Banks

- The Bank of Canada (BoC) did not meet in November, and held its policy rate firm at a historically low 0.25% following its final 2020 meeting on December 9. In its press release, the BoC noted that it will likely remain accommodative to economic growth—with both low rates and asset purchases—until its 2% inflation target is reached, which is not expected to occur until 2023.

- The Federal Open Market Committee (FOMC) made no changes at its early-November meeting. In the middle of the month, the Department of the Treasury (Treasury) requested that the Federal Reserve (Fed) extend four emergency lending facilities that had been established in March—yet also asked the central back to return $455 billion of unused funding for five other lending facilities. President-elect Biden named former Fed Chair Janet Yellen as his nominee for Secretary of the Treasury.

- The Bank of England's Monetary Policy Committee expanded its quantitative-easing programme at its early-November meeting, committing a fresh £150 billion toward bond purchases for a total of £895 billion. The Committee's latest quarterly report projected that the U.K. economy could contract by 11% in 2020, a deterioration from the 5.4% contraction estimated a quarter ago.

- Neither the European Central Bank (ECB) nor the Bank of Japan (BOJ) held meetings in November.

Market Impact (in Canadian dollar terms)

Investor risk appetite returned thanks to promising announcements on several COVID-19 vaccines. Domestic equities were quite strong, led by healthcare, energy and smaller companies, while materials was the only sector to post losses. Within U.S. equities there was a shift towards smaller companies, value stocks and companies that may benefit from the potential loosening of lockdowns in a post-vaccine-approval world. Emerging-markets performance was more mixed, with countries such as Brazil—which had been hit particularly hard by COVID-19—rallying the most, while Chinese equities were slightly negative since the country is reportedly further along in the virus fight than many other emerging markets. Developed countries in Europe also produced strong gains.

Fixed-income markets were also solid, led by real-return bonds and corporate debt, while short-term bonds and residential mortgages were only modestly positive. U.S. high-yield bonds, which are risker than investment-grade bonds, posted strong gains.

Index Data (November 2020)

- The S&P/TSX Composite Index was up 10.57%.
- The FTSE Canada Universe Bond Index returned 1.03%.
- The S&P 500 Index, which measures U.S. equities, increased by 7.83%.
- The MSCI ACWI Index (Net), used to gauge global equity performance, gained 9.17%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 3.89% (currency hedged) and 1.09% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index also known as the “fear index”—decreased from 38.02 to 20.57 at month end.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, rose sharply from US$35.79 on the last day of October to US$45.34 at the end of the month, as promising news on the vaccine front led to speculation of future increased oil demand.
- The loonie strengthened versus the U.S. dollar; it ended the month at C$1.30 per U.S. dollar. The U.S. dollar was mostly weaker versus the world’s other major currencies. It ended the month at US$1.33 against sterling, US$1.19 versus the euro and 104.32 yen.