A Month in the Markets

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In this latest edition our Portfolio Manager John Mullins looks at how key themes impacted markets in January: COVID-19 UK vaccination programme, EU trade agreement and a new US Presidency.

Market Overview

Global stock markets delivered a mixed performance in January. The month began with a sense of optimism about the transition of power to a new US president, a trade agreement between the UK and European Union (EU), and the rollout of COVID-19 vaccines around the world. However, negative news about tighter lockdown conditions and rapidly spreading variants of the virus caused investors to become pessimistic. Due to this, markets lost some steam in the second half of the month. Asia-Pacific and the emerging markets delivered positive returns for the month, while the US, UK and Europe were slightly negative.

John Mullins
Portfolio Manager

US

Following more than two months of Donald Trump refusing to accept the outcome of the US election, President Joe Biden and the Democrats formally took control of the White House, Senate and House of Representatives in January. Like in many other countries, COVID-19 infection rates in the US remained high in January, while a report from the Department of Labor showed the US lost 140,000 jobs in December. This brought an end to seven months of jobs growth. Shortly after his inauguration, President Biden unveiled a $1.9tn recovery plan from the pandemic – which is subject to being passed by Congress – and pledged to speed up the distribution of vaccines. The US economy is estimated to have grown by 4% in the final three months of 2020 – a significant slowdown on the previous three months as COVID-19 cases surged and the economy lost momentum due to tighter restrictions. During the month, markets in the US experienced a degree of volatility as a number of individual investors pushed up the share prices of struggling companies that some larger institutional investors had anticipated would fall.

Europe and the UK

Even though the UK began the new year amid lockdowns intended to slow down the spread of COVID-19, UK stock markets started the month on a buoyant note. To a certain extent, this was driven by positivity surrounding the trade agreement reached with the EU on Christmas Eve and a brisk COVID-19 vaccination programme that provided some hope that the end of the pandemic is in reach. Nevertheless, the tighter restrictions and lockdown measures fed through to poor economic data over the month.

The Office for National Statistics reported that gross domestic product – the main measure of activity in the economy – fell by 2.6% in November compared with a rise of 0.6% in October. Meanwhile, business activity in the services sector, which includes hotels, restaurants and other customer-facing businesses, entered a downturn due to national lockdown restrictions.

European stock markets underperformed during the month. This was a reflection of the economic challenges that Europe faces as a result of stringent lockdowns that have taken their toll on businesses. While the Eurozone's manufacturing sector remained in good shape, the services sector struggled once again, contributing to the third consecutive month of falling activity in the trading bloc.

Asia and Emerging Markets

Stock markets in Asia-Pacific outperformed other major markets, particularly the US, UK and Europe, partly because some countries in the region were effective at controlling the virus. Manufacturing activity in China continued to expand, although it is expected that the rate of growth slowed down slightly in January due to a resurgence of local COVID-19 cases. However, China's economy continued to be among the strongest in the world, with economic growth of 6.5% in the final three months of 2020 due to rising exports. Elsewhere in Asia-Pacific, there were concerns that the economic recovery was stalling in Japan, with government data released during the month showing that industrial output fell in December.

Outlook

Looking to the months ahead, we remain cautiously optimistic in our outlook. As we have written previously, the route for markets and economies in the coming months is linked to the path of the COVID-19 pandemic. The worldwide vaccination effort, combined with warmer temperatures in the spring, may allow economies to begin returning to some sense of normality later in the year.

Meanwhile, central banks and governments will continue to support economies and we believe this will be positive for stock markets. While Shares have seen strong growth recently, we believe there is more room to grow in this environment.

Data as at 2 February 2021.

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