What drove the markets in 2020?

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Global markets

Leading into 2020

Global markets ended 2019 on a positive note, with global equities up 28% (in USD) and the S&P rising 31% (in USD). During the last quarter of 2019, the US-China trade wars seemed to be easing and investors looked forward to a trade deal between the two nations. In addition, monetary policy played no small part in assisting the economy. The US Federal Reserve cut interest rates three times during the year, propelling and extending one of the longest bull markets in the US.

The arrival of 2020

January 2020 saw the signing of the first phase of the US-China trade deal, while on the European front Brexit was finalised.

Sentiment was, however, largely positive until end-February when the reality of COVID-19 hit hard. The virus had started in China a few months before and spread rapidly across the globe, leading to lockdown restrictions across most parts of the world.

The US, in particular, was hit hard as we saw the one of the sharpest market and economic downturns in history, coupled with unprecedented volatility levels. Global equities were down 21% in Q1 2020. This particular crisis was vastly different to anything fund managers and investors had seen before. It took effect a lot quicker and the effects were a lot deeper than the global financial crisis of the previous decade. It is precisely at moments like this that investors panic and want to switch to cash, despite literature and financial advisers warning against doing this.

Background events throughout 2020

Oil price wars

Worried about the low demand that was worsened by COVID-19, OPEC (Organisation of Petroleum

Exporting Countries) took a decision to cut oil production by an additional 1.5 million barrels per day so as to keep prices afloat and called on other non-OPEC countries to do likewise. However, Russia refused. Saudi Arabia then increased its oil supply significantly, pushing the oil price downward as Brent crude fell 30% in one day (the largest fall since the Gulf War), exerting enormous pressure on companies such as Sasol.

In July there was an agreement between the countries and the oil price recovered, although still not reaching pre-COVID levels.

Monetary policy saves the day

Interventions from developed market governments and central banks helped prevent the global pandemic from having much worse economic and market impact than it could have. The series of interest rate cuts was supplemented by other non-conventional methods such as buying government and corporate bonds. An unprecedented $2 trillion stimulus package was unlocked by the US government – the magnitude of which was more than twice than that of the stimulus for the global financial crisis. Other developed market central banks followed suit in implementing aggressive stimulus measures. The ECB (European Central Bank) announced an emergency bond buying programme of €750 billion while the BoJ (Bank of Japan) also announced a stimulus package of $700 billion (which would later be increased to $1.02 trillion). In emerging markets, China’s central bank eased the liquidity requirements of commercial banks while also pumping $243 billion into financial markets.

Technology leads the rally

The global stimulus-led market recovery happened aggressively and quickly. The US technology sector benefited the most and saw a rally in prices of companies such as Facebook, Apple, Google, Netflix and Microsoft. The rally in tech stocks had been a reality for more than a decade as lower US interest rates were supportive to the “growth story”. Further, lockdown restrictions and the work-from-home environment provided handsome tailwinds.

We saw a further dispersion between growth stocks and value (or cyclical) stocks. Value, or cyclical, companies – including energy or oil type companies and financials – experienced a rough year, given the tough economic backdrop. However, the broad-based sell-off created a window of opportunity for good businesses to be priced at attractive valuations. Funds exposed to value stocks underperformed considerably in the first half of the year - only to experience a handsome recovery in the second half, and especially in the last quarter of the year.

Q4, 2020

As we entered the last quarter of the year, COVID cases continued to increase, but economies started re-opening as the development of a vaccine helped boost market and economic sentiment, which was positive. The US began preparing for the elections and we've subsequently seen positivity in the markets following the election of President Biden. He brings a more stable and predictable policy environment.

Markets in 2021

How markets perform in 2021 will depend largely on how the pandemic plays out globally. Following the divergence between growth and value stocks seen in the last quarter of 2020, we now see a rotation happening. US markets have rallied and are relatively expensive now, so we expect to see investors rotating to cyclical or value stocks.

Local markets across 2020

By the time SA went into lockdown in March, the economy was already not in good shape. State-owned enterprises (particularly Eskom) remain a big burden on the fiscus, and Eskom remains a key problem as the ongoing load shedding affects all sectors of the economy. SA also got downgraded during lockdown, which meant it was now more expensive for the country to finance and raise capital. The JSE lost 21% in the first quarter before rebounding 23% in the second quarter.

Monetary policy to the rescue

We saw similar rate-cutting in SA, with the SARB cutting rates by 3% in total for the year – to attempt to stimulate the economy. The SARB also bought government bonds to create liquidity in the market, after foreign investors sold off their bonds.

The local economy declined by 16.6%% in Q2, and although it was up 13.5% in Q3, this was off a low base. The decline in Q2 was mainly driven by the lockdown – only the agricultural sector performed well while all other sectors contracted. Tourism and hospitality were amongst the sectors that were extremely hard hit.

Local markets ended positive last year – and were up 7% for the year, mainly driven by resources which were up 21% for the year. SA industrials (rand hedges) were up 12%. Financials were down almost 20% for the year while retailers were down 15%. Bonds outperformed local equities, gaining 8.65% while cash was up 5%. The Top 40 ended 10% up – largely due to large-cap rand hedge stocks that benefitted from currency strength. Property remained under pressure, suffering a loss of 35% for the year, the last months of positive returns notwithstanding.

Local markets in 2021

As with global markets, performance in 2021 will depend largely on how the pandemic plays out, along with the roll-out of the vaccine. We also have the lingering debt problem and high unemployment to sort out. A resumption in economic activity is a key necessity in spurring the much-needed growth.

There is still a lot of uncertainty in the markets and we urge investors to consult with their financial advisers before making any investment decisions.

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