

Market Review 2020 – Looking Back on an Unprecedented Year...

The year 2020 proved to be one of the most tumultuous in modern history, marked by a number of developments that were historically unprecedented. But the year also demonstrated the resilience of people, institutions, and financial markets.

The novel coronavirus was already in the news early in the year, and concerns grew as more countries began reporting their first cases of COVID-19. Infections multiplied around the world through February, and by early March, when the outbreak was labelled a pandemic, it was clear that the crisis would affect nearly every area of our lives. The spring would see a spike in cases and a global economic contraction as people stayed closer to home, and another surge of infections would come during the summer. Governments and central banks worked to cushion the blow, providing financial support for individuals and businesses and adjusting lending rates.

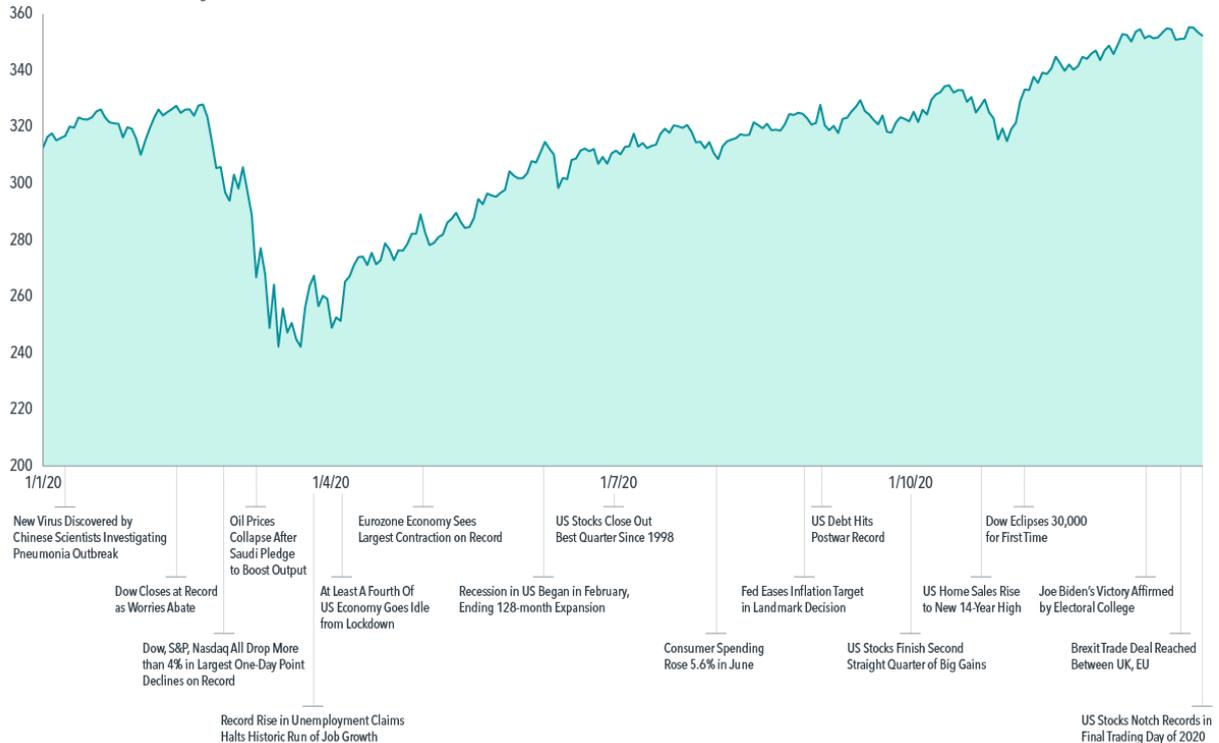
On top of the health crisis, there was widespread civil unrest over the summer in the US tied to [policing and racial justice](#). In August, Americans increasingly focused on the US presidential race in this unusual year. Politicians, supporters, and voting officials wrestled with the challenges of a campaign that at times was conducted virtually and with an election in the fall that would include a heightened level of mail-in and early voting. In the end, the results of the election would be disputed well into December. As autumn turned to winter, 2020 would end with both troubling and hopeful news: yet another spike in COVID-19 cases, along with the first deliveries of vaccines in the US and elsewhere.

March saw the S&P 500 Index's¹ decline reach (25.66%) from the previous high as the pandemic worsened. This was followed by a rally in April, and stocks reached their previous highs by August. Ultimately, despite a sequence of epic events and continued concerns over the pandemic, global stock market returns in 2020 were above their historical norm. The US market finished the year in record territory and with an 14.74% annual return for the S&P 500 Index. Global developed markets, as measured by the MSCI World Index,² returned 12.32%. Europe underperformed, with the MSCI Europe Index returning 2.13%. The MSCI United Kingdom posted negative returns, falling (13.23%). Emerging markets, as measured by the MSCI Emerging Markets Index, returned 14.65% for the year.

EXHIBIT 1

Highs and Lows

MSCI All Country World Index with selected headlines from 2020



Past performance is of course no guarantee of future results.

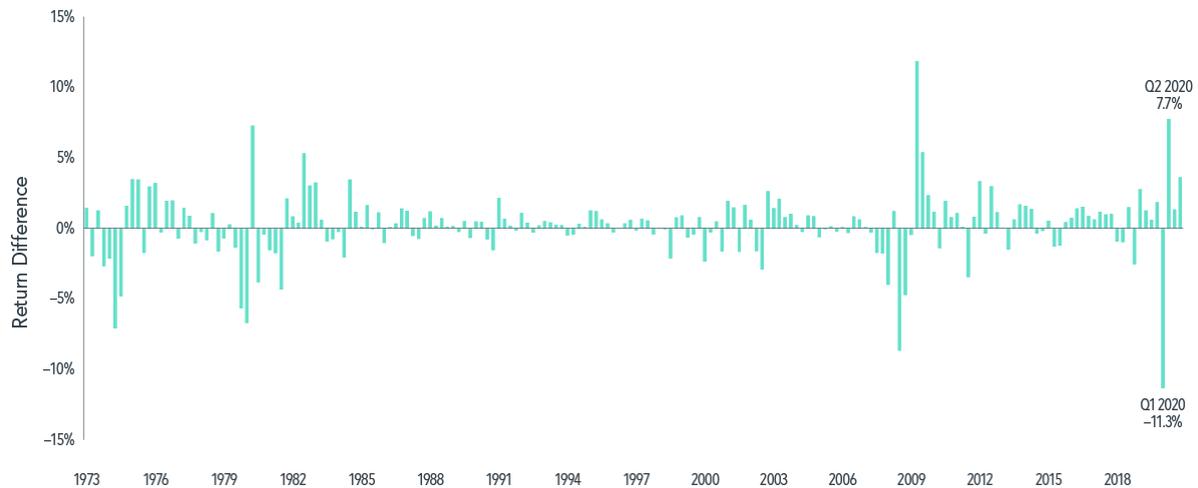
Fixed income markets mirrored the extremity of equity behaviour, with nearly unprecedented dispersion in returns during the first half of 2020. For example, in US dollars, in the first quarter, US corporate bonds underperformed US Treasuries by more than (11%), the most negative quarterly return difference in data going back a half century. But they soon swapped places: the second quarter was the second-most positive one on record for corporates over Treasuries, with a 7.74% advantage.³ Large return deviations were also observed between US and non-US fixed income as well as between inflation-protected and nominal bonds.

Global yield curves finished the year generally lower than at the start. US Treasury yields, for example, fell across the board, with drops of more than (1%) on the short and intermediate portions of the curve.⁴ The US Treasury curve ended relatively flat in the short-term segment but upwardly sloped from the intermediate- to long-term segment. For 2020, the Bloomberg Barclays Global Aggregate Bond Index⁵ returned 4.96% in pound sterling.

EXHIBIT 2

Sharp Shifts

US Credit minus US Treasury: Quarterly Returns, March 1973–December 2020



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Uncertainty remains about the pandemic and the broad impact of the new vaccines, continued lockdowns, and social distancing. But the events of 2020 provided investors with many lessons, affirming that following a disciplined and broadly diversified investment approach is a reliable way to pursue long-term investment goals.

Market Prices Quickly Reflect New Information about the Future

The fluctuating markets in the spring and summer were also a lesson in how markets incorporate new information and changes in expectations. From its peak on February 20, 2020, the MSCI World Index fell (26.07%) in less than five weeks as the news headlines suggested more extreme outcomes from the pandemic. But the recovery would be swift as well. Market participants were watching for news that would provide insights into the pandemic and the economy, such as daily infection and mortality rates, effective therapeutic treatments, and the potential for vaccine development. As more information became available, the MSCI World Index jumped 11.49% from its March 16 low in just eight trading sessions, one of the fastest snapbacks on record. This period highlighted the vital role of data in setting market expectations and underscored how quickly prices adjust to new information.

One major theme of the year *was the perceived disconnect between markets and the economy*. How could the equity markets recover and reach new highs when the economic news remained so bleak? The market's behaviour suggests investors were looking past the short-term impact of the pandemic to assess the expected rebound of business activity and an eventual return to more-normal conditions. Seen through that lens, the rebound in share prices reflected a market that is always looking ahead, incorporating both current news and expectations of the future into stock prices.

Owning the Winners and Losers

The 2020 economy and market also underscored the importance of staying broadly diversified across companies and industries. The downturn in stocks impacted some segments of the market more than others in ways that were consistent with the impact of the

COVID-19 pandemic on certain types of businesses or industries. For example, airline, hospitality, and retail industries tended to suffer disproportionately with people around the world staying at home, whereas companies in communications, online shopping, and technology emerged as relative winners during the crisis. However, predicting at the beginning of 2020 exactly how this might play out would likely have proved challenging to say the least!.

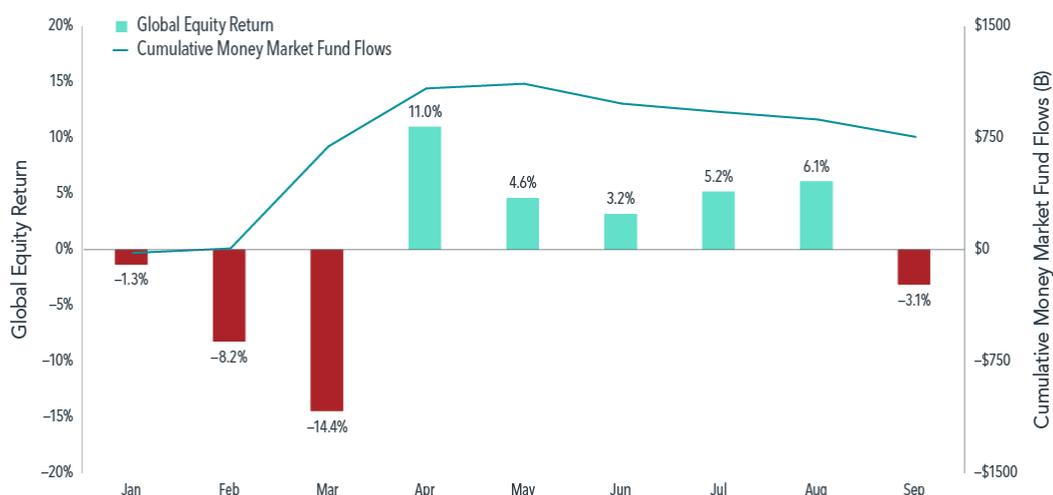
In the end, the economic turmoil inflicted great hardship on some firms while creating economic and social conditions that provided growth opportunities for other companies. In any market, there will be winners and losers—and investors have historically been well served by owning a broad range of companies rather than trying to pick winners and losers.

Sticking with Your Plan

Many news reports rightly emphasised the unprecedented nature of the health crisis, the emergency financial actions, and other extraordinary events during 2020. The year saw many “firsts”—and subsequent years will doubtless usher in many more. Yet 2020’s outcomes remind us that a consistent investment approach is a reliable path regardless of the market events we encounter. Investors who made moves by reacting to the moment may have missed opportunities. For example, in March in the United States, spooked investors fled the stock and bond markets, as money-market funds experienced net flows for the month totalling \$684 billion. Then, over the six-month period from April 1 to September 30, global equities and fixed income returned 29.54% and 3.16% in US dollars, respectively. A move to cash in March may have been a costly decision for anxious investors.

EXHIBIT 3

Cash Concerns in 2020



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It was important for investors to avoid reacting to the dispersion in performance between asset classes, too, lest they miss out on turnarounds from early in the year to later. For example, small cap stocks on the whole fared better in the second half of the year than the first. The stark difference in performance between the first and second quarters across bond classes also drives home this point.

A Welcome Turn of the Calendar

Moving into 2021, many questions remain about the pandemic, new vaccines, business activity, changes in how people work and socialise, and the direction of global markets. Yet 2020's economic and market tumult demonstrated that markets continue to function, and that people can adapt to difficult circumstances. The year's positive equity and fixed income returns remind that, with a solid investment approach and a commitment to staying the course, investors can focus on building long-term wealth, even in challenging times.

FOOTNOTES

1. ¹S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment.
2. ²MSCI data © MSCI 2021, all rights reserved. Indices are not available for direct investment.
3. ³US corporate bonds represented by the Bloomberg Barclays US Credit Bond Index. US Treasuries represented by the Bloomberg Barclays US Treasury Bond Index. Bloomberg Barclays data provided by Bloomberg. Indices are not available for direct investment.
4. ⁴ICE BofA government yield. ICE BofA index data © 2021 ICE Data Indices, LLC.
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Performance in GBP unless otherwise stated.

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