

Monthly Market Review

December 2020

What happened in December?

The MSCI All Country World Index gained **+4.6%**, while the Barclays US Aggregate Index was up **+0.1%**. Broad commodities added **+6.0%**, and gold appreciated **+7.1%**.

Cyclical sectors boosted as the Democratic Party takes control of the Senate for the first time in six years and completes the sweep.

The Democratic Party won both Georgia Senate elections held yesterday, which means that the Democrats will now have control of the Senate in addition to the House of Representatives and the presidency. This should increase President Biden's ability to execute on his agenda, which includes a larger stimulus package, higher taxes, and increased regulation on mega cap technology companies like Facebook, Amazon, Apple, and Google. From a market perspective, we expect that benefits from a larger stimulus would likely outweigh the adverse impact of higher tax rates and increased regulation in the near term and that it would particularly benefit cyclical stocks like those found in the energy, industrials, financials, and materials sectors.

Countries begin vaccine distribution campaign to fight COVID-19.

The first COVID-19 vaccinations were administered in December as the global economy initiated the next phase required to return the economy and society to normalcy. So far 4.8 million people have been vaccinated in the US and 14.9 million globally (see Chart of the Month). Two vaccines (Pfizer and Moderna) have been authorized for use in the US, and the federal government has secured 300 million doses with the option to purchase more.

Willingness to take the vaccine also improved incrementally, as 60% of Americans now say they will "definitely" or "probably" get vaccinated for COVID-19, up from 51% in September. We will be tracking vaccinations closely because it is estimated that over 60% of the population will need to be vaccinated to achieve herd immunity, although these estimates vary widely.

A new virus strain and hiccups in the vaccine rollout pose some challenges.

News of a variant strain of COVID-19 emerged in the past few weeks, prompting the United Kingdom to enter another national lockdown. There is evidence that the new strain is more contagious, but no evidence shows it is more deadly or severe than other strains. Fortunately, experts believe the leading vaccines already developed should still prove efficacious for this new strain.

Although the distribution of the COVID-19 vaccines provides cause for optimism, the [rollout has so far been executed less smoothly than anticipated](#); the US fell well short of its objective to have

20 million people vaccinated by the end of December. However, we still expect that those most vulnerable to the virus will be vaccinated by end of Q1, which should reduce mortalities and alleviate pressure on the hospital system.

Markets reacted positively to new stimulus measures in the US.

The US government passed a stimulus package aimed at financially bridging the gap between localized lockdowns and the return to a more normalized economy.

The bill includes direct payments of \$600 per person subject to income restrictions, an additional \$300 per week of unemployment benefits through March, and a second round of [Paycheck Protection Program \(PPP\) loans](#) for small businesses, among other provisions.

Positioning Highlights:

We remain cautiously optimistic and generally favor using increases in market volatility as an opportunity to increase exposure to risk assets.

- **Increase exposure to equities:** We remain cautious but continue to favor increasing equity exposure as economic growth reaccelerates.
- **Increase exposure to cyclical sectors within equities:** We generally favor increasing exposure to more cyclical equity sectors (industrials, financials, materials) as we prepare for a global economic reacceleration in the first half of 2021.
- **Reduce exposure (from material overweight) to defensive assets like treasuries and gold:** We generally favor reducing exposure to long-term US treasuries and gold. We believe that maintaining these hedges is less critical as the economy transitions from the recessionary phase to the recovery phase.

Chart of the Month:

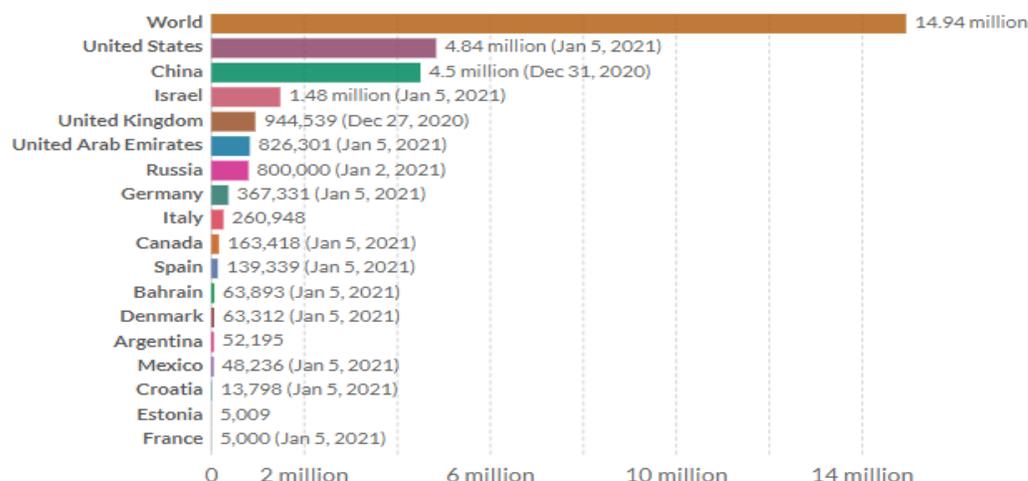
The COVID-19 vaccination campaign is underway. So far 4.8 million people have been vaccinated in the US and 14.9 million globally.

COVID-19 vaccination doses administered, Jan 6, 2021

Total number of vaccination doses administered. This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).



+ Add country



Source: Official data collated by Our World in Data. Dates refer to when the data was reported.

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