

The month ahead – December 2020

Equity markets rebounded in November, regaining most of October's losses, with some indices making new all-time highs. The optimism came after some promising results from phase 3 COVID-19 vaccine trials from several drug companies.

By late-November, the broader S&P 500 was up more than 7%, while the NASDAQ 100 was also showing solid gains for the month, up more than 5%. Meanwhile, New Zealand stocks were also on track for a good month, with the NZX 50 set to close November higher.

Despite the ongoing drama around the US election result, the focus for markets is well and truly back on the pandemic. With this in mind, here's a look at what ANZ Investments is watching this coming month.

COVID-19 SURGE AND NEW RESTRICTIONS NOW POSING THREAT TO ECONOMIC RECOVERY

In November, the number of COVID-19 cases continued to rise at an alarming rate across Europe and the US, which saw a number of hard-hit areas impose restrictions to curb the rise.

As we head into the Northern Hemisphere winter (data shows the virus transmits faster in indoor settings) there is concern that some areas may struggle to get the spread under control, leading to forced lockdowns and restrictive measures, which could weigh on economic activity and dampen the recovery.

In fact, concerns around the economic impact of the current coronavirus wave have seen some forecast a decline in US GDP in the first quarter of 2021.

NEXT STEPS FOR VACCINE CANDIDATES COULD BE AROUND THE CORNER

The pickup in optimism in November came amid positive results from some leading vaccine candidates, including the Pfizer/BioNTech partnership and Moderna. After both showed promising results in phase 3 trials, we now turn our attention to potential peer reviews and/or decisions from the Food and Drug Administration (FDA), regarding approval for emergency use.

We expect to see some follow-up data in December, and if the initial results are confirmed, it would strengthen the notion that a V-shaped recovery is still on the cards and economic activity could return to near pre-COVID levels sometime in 2021.

Given this, vaccine-related data will be closely monitored heading into year-end.

US POLITICAL SITUATION STILL MESSY; STIMULUS PACKAGE NOW UNLIKELY

More than three weeks after the election, President Donald Trump has still yet to officially concede (although some transition to the new government has begun), continuing to claim – without evidence – widespread voter fraud. To date, the refusal to concede has had little impact on markets, but broadly speaking, Trump’s refusal to begin a peaceful transition of power could set back Biden’s campaign effort to address the pandemic when he takes office in 2021.

Nevertheless, we do believe the longer Trump drags the election challenge on, the possibility of a pickup in volatility grows, even if it is small.

In addition, a further by-product of the drawn out election is the likelihood of a fiscal stimulus package before the end of the year has all-but diminished. If Congress had been able to push a deal across the line, it would have been seen as market-friendly.

AS FISCAL POLICY STALLS, DOES THE FED CONTINUE TO PICK UP THE SLACK?

The Federal Reserve will conclude its two-day meeting on 16 December where there is an increasing likelihood that the central bank will take further monetary policy action. The potential move comes with the US Congress at a stalemate over further fiscal support, even as some parts of the country reinstate lockdown measures, dampening economic activity.

The Federal Reserve has repeatedly stated the importance of fiscal stimulus in the economic recovery, but the lack of cooperation in Congress may see them take policy action if they believe the recovery is starting to falter.

Whether or not the Fed rolls out further monetary policy measures, we see no reason for them to depart from their heavily accommodative stance.

OVERWEIGHT EQUITIES WITH LONG-TERM OPTIMISM

Despite the ongoing concerns around the rising coronavirus numbers, we remain overweight international and Australian equities believing the medium to long-term outlook for the global economy is looking up. Recent results from phase 3 vaccine trials have increased the likelihood that growth could return to near pre-COVID levels.

Furthermore, this optimism has seen long-dated bond yields in the US rise, helping our underweight position in fixed interest.

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