



**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Pensions Committee
Date:	07 January 2021
Subject:	Independent Advisor's Report

Summary:

This report provides a market commentary by the Committee's Independent Advisor on the current state of global investment markets.

Recommendation(s):

That the Committee note the report.

Background

Investment Commentary – January 2021

Already close to all-time highs – are equity markets primed for a fall in 2021?

Think back, if you will, to March 2020 as the disastrous effects of the Covid pandemic on the world – and the global economy - became clearer. Equity markets throughout the world, almost without exception, fell around 35% in the space of a month or so. Yet nine months later, that collapse in prices is but a distant memory. Equity markets are close to all-time highs, having had a stellar rise on the month of November alone. Bond yields remain low despite rising a little in recent weeks.

Positive news for markets

It is not difficult to identify events that equities took as positive. During November alone, Joe Biden secured his election as the next US president – putting an end to the tumultuous and erratic tenure of Donald Trump. There are two Senate seats in Georgia due for election in January that could, if successful, give the Democrats control of both Houses of Congress, removing the potential legislative gridlock. Markets were particularly encouraged by the appointment of Janet Yellen as the new Treasury Secretary; she was previously a successful chairman of the US Federal Reserve (the US Central Bank). She is regarded as the “archetypal” safe pair of hands – again in marked contrast to her predecessor.

November also saw several announcements of successes in developing Covid vaccines. The fact that there are several effective vaccines, not just one, reassured markets. At the time of writing, vaccinations, on a small scale, have commenced. These events gave markets confidence that there would be a substantial economic recovery in the global economy in 2021. World output will have fallen around 5% on 2020 and a recovery to 2019 levels of output seems plausible. Many forecasters think global profits, on such an assumption, can rise 20% in 2021. This, at least, provides some underpin to current elevated equity market prices.

But – what could go wrong?

At the moment, the equity markets are “travelling hopefully” and potentially glossing over pitfalls. Will the vaccines be successful and can enough of the global population be vaccinated by say mid 2021? What proportion of the population in the developed world will refuse to take the jab? The hoped for economic recovery in 2021 does rest, probably, on success in the vaccination programme. The markets may be assuming that President Biden will seek a rapprochement with China in the coming months. And that the European Union can overcome its current budgetary crisis, provoked by Hungary and Poland. Brexit (currently unresolved at the time of writing) is a concern but not of global significance.

Recent weeks have seen something of frenzy with private investors flocking to buy equities using cheap borrowed bank loans. Initial Public Offerings (the jargon for new companies coming to market) have been opening at huge premiums to issue price on the US markets. This is not usually a good augury for the stability of markets – which many commentators describe as “frothy”.

Conclusion

Nonetheless, the fact remains that Central Banks have provided huge quantities of cash liquidity to their respective markets and stand ready to do more if required. This is what I think will support markets at close to current levels. Counter intuitively, the worse the news on Covid and on economic factors such as unemployment, company failures and the lack of economic progress, the more likely it is that Central Banks will “ride to the rescue”. This logic suggests that the time to anticipate an equity market setback and a rise in interest rates is when the news becomes unambiguously good. That state of affairs seems to me to be some months into the future.

Peter Jones
15 December 2020

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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