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February 2021

QUARTERLY MARKET RECAP
Q4 2020

Contact details

Call us +33 1 49 49 59 49
Email us cfm@cfm.fr

Quarterly market recap
Q4 2020

October 2020

- Markets took their cue predominantly from news and expectations about the upcoming US elections; uncertainty about Brexit negotiations, and the extent and probable effects of repeat Covid-related European lockdowns.
- Risk assets showed disparate returns across regions. European (Stoxx 600: -5.7%) and US large cap (S&P 500: -2.7%) equities had their worst month since March, while Emerging markets fared better and delivered positive returns on aggregate. The Hang Seng and Shanghai CSI gained +2.7% and 3.9% in US dollar terms respectively.
- Technology stocks had a particularly tough month, with the Nasdaq slipping 3.2% - its second consecutive negative month.
- Meanwhile, US Treasury yields coursed higher despite the equity sell-off: the US 10-year benchmark rose 19 basis points, ending the period at 0.87% - the highest level since June. Investors were likely positioning for a Democratic victory that should, if party messaging stays consistent, result in a wider U.S. fiscal deficit. Moreover, the bond sell-off was also peddled as investors positioning themselves to avoid any nasty surprises amidst the high level of uncertainty and strife in relation to the election.
- The US dollar steadied, gaining 0.16% against a basket of major G-10 currencies.
- Commodities, broadly, made gains: the Bloomberg Commodity Index ended 1.4% higher, but hiding large disparity between individual contracts. Energy lost (with the marked exception of Natural Gas), while many Softs performed well.
- Implied volatility picked-up towards month-end, with the VIX peaking above 40 points – the highest level since June.

November 2020

- November was an eventful month: markets had to navigate a highly contentious US election before scrambling on 9 November following news that a Covid-19 vaccine contender is showing a high rate of efficacy.
- Following the news on 9 November, the market experienced a dramatic reassessment, with Momentum stocks with those having gained in price most since March violently selling off. The Dow Jones Thematic Market Neutral Momentum index lost 14% on the day – the biggest daily loss ever for that index.
- Risk assets rallied on the news (and a measure of relief following the US election), with many major equity benchmarks posting record highs and breaking monthly return records. Global developed markets posted a 10.1% gain as per the Morningstar Developed Markets index. Small cap stocks in the US did particularly well, with the Russell 2000 gaining 18.4% - its biggest monthly returns since its 1984 inception.
- Commodities also benefited from brighter economic prospects, with especially super-user China supporting demand. Copper, the favourite bellwether for demand in China, gained 12.2% this month, and is up more than 60% since its March nadir. China's official manufacturing and non-manufacturing PMI for November printed at 52.1 and 56.4, respectively – both above expectations.
- Meanwhile, the US Treasury yield curve shifted lower. The Fed left monetary policy unchanged at their November 4-5 meeting, with minutes released near month-end offering few clues about any likely near-term policy changes. The Fed did, however, signal a recognition "that circumstances could shift to warrant such adjustments" – referring to their bond-buying program. Markets are betting this might include longer-dated debt, pushing the long end of the curve lower (the yield on the 10-year slipped slightly more than 3 basis points). Lower yields also reflect lingering concerns over the economic impact - data have been mixed, with the Citi US Economic Surprise Index falling the most since April.
- The US dollar has been trending lower, concurrent with improving vaccine news. The greenback lost 2.3% against a basket of G7 currencies, bringing the losses to nearly 11% from its 20 March peak.

December 2020

- Risk assets finished the year in positive territory – global developed markets posted a 4.5% gain in December, as per the Morningstar Developed Markets index, while emerging markets gained 7.6%. The two indices ended 16.3% and 19.6% higher for the year respectively. Ample liquidity, an overtly dovish Fed, and optimism about the roll-out of Covid vaccines all supported investor sentiment and risk appetite.
- With a higher level of confidence about economic growth, as well as a continued slump in the greenback, commodity markets rallied. Energy markets especially had a good month, with Brent gaining 8.9%. Oil reached a 9-month high, and broke through $50 per barrel for the first time since March. The vaccine roll-out and stimulus package negotiated in the US providing support. Industrial metals, especially owing to the substantial fiscal stimulus brought to bear by China, made noticeable gains.
- The US Treasury yield curve steepened. The Fed maintained its dovish rhetoric at its December FOMC meeting.
- Brexit negotiations made it to the 11th hour before a deal was struck.
- The US dollar continued to trend lower. The DXY index lost 2.1%, ending nearly 13% lower than the March 2020 peak.

Disclaimer

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Contact us

Capital Fund Management S.A.
23, rue de l'Université, 75007
Paris, France
T +33 1 49 49 59 49
E cfm@cfm.fr

CFM International Inc.
The Chrysler Building, 405 Lexington Avenue - 55th Fl.,
New York, NY, 10174, U.S.A
T +1 646 957 8018
E cfm@cfm.fr

Capital Fund Management LLP
2nd Floor, Bank Building, Smithson Plaza, 26 St James's Street,
London, SW1A 1HA, UK
T +44 207 659 9750
E cfm@cfm.fr

Capital Fund Management LLP - Sydney
T +61 438 555 904
E cfm@cfm.fr