FACETOLOGY

1st December 2020

Reasons to be cheerful

"When we all think alike, no one thinks very much" – Albert Einstein

Despite the negative headlines, November was a great month for stock markets. The US Dow Jones posted its biggest monthly gain since January 1987, rising just short of 12%, and the FTSE 100 index rose by a similar amount to end the month at 6,266.

The gain was essentially in response to two news events that propelled the market up from the October lows. Firstly, investors swept aside fears of legal challenges to Joe Biden's legitimacy as President Elect. This was swiftly followed by the subsequent news of multiple new Covid-19 vaccines being close to approval.

The effect that these news items have had, whilst admittedly good, reflect how markets are currently "event-driven" and more influenced by headlines than fundamental analysis of balance sheets or cash-flow. Of course, the job of the stock market is to project out changes taking place today into company profits nine months from now. Nevertheless, it is clear that a little bit of good news caught investors facing the wrong way into the doom and gloom.

It is also an indication of the short-term nature of the current investment mentality. After all, a 12% gain in November alone, would have represented a healthy performance in any normal year, of which there have been noticeably few in the last 20 years (!). So what else awaits us in the diary leading up to year-end?

This morning, it was announced that the UK has become the first country to approve the Pfizer/BioNTech vaccine. It is expected that the US Federal Drug Administration will follow suit by passing its own emergency approval. The US news will have more of a global impact and the passing of such a milestone, on the road to getting out of the pandemic, will likely be positive for stocks across the board.

Also from today, we will get a good indication of consumer sentiment in the form of retail sales during the days covering Black Friday. The figures used to be a pretty straightforward measure of people's willingness to go out and spend before Christmas. Online sales have risen massively every year as a proportion of total sales and need to be added to store sales to get an accurate picture. Since many people have been reluctant to go out to shopping centres because of Covid-19, a large pick up in online sales is expected. Poor data from physical stores may well be overlooked since their troubles were well known long before the pandemic. The collapse of Arcadia in the UK will not have surprised many and, sad though it is, has had a minimal impact on sentiment or, indeed, the stock market.

From around 12th December we will, start seeing data following the US Thanksgiving holiday on 26th November. There is an obvious worry that we will see a dramatic rise in infections, and consequently daily deaths, from people travelling across the nation visiting family and friends. However, a large increase will come as no surprise to anyone and, in the wake of the good news on vaccines, it is quite possible that markets will look through what will be undoubtedly gloomy reading.

On 14th December the US Electoral College Votes for the US Presidency will be cast. They will almost certainly confirm Joe Biden as President-elect. Markets like certainty, of course, and they may have one less thing to worry about if the confirmation also ends the formal objections of Donald Trump.

On or around 19th December. We will likely see the details of the US stimulus package for Covid-19. It will be a mixture of direct aid for families and households as well as small business loans and funding for vaccine distribution. Expected to be getting on for $1 trillion, the sheer size of the package could help to smooth the transition to a Biden Presidency and, with news of the vaccine distribution included, should be viewed positively by markets.

If most, or all, of these events are taken positively over the next few weeks, they could drive markets significantly higher given the relatively low expectations that share prices currently reflect. A few positive steps now may give company managements the confidence to give some indication of their plans regarding resumption of dividend payments, for example. They do not, of course, mask the long-term problems of debt and unemployment being stored up in the future, both at the corporate and national level. These need answers in time. But we do not believe that time is now or any time soon. Short-term markets need watching carefully but, for now, we believe the greater risk to performance would be being out of this rally in stocks.