Weekly Market Summary

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A Difficult 2020 Comes to an End ... Will 2021 be Any Better?!
Fadi Nasser - Deputy Chief Investment & Treasury Officer

Latest Update on Coronavirus: Confirmed cases last at 79.819 million, with the death toll from the pandemic at 1,751,187. The US said air passengers arriving from the UK must have a negative Covid-19 test within 72 hours of departure to enter the country amid rising concerns over a mutated strain, while Hong Kong extended its mandatory quarantine for most visitors to three weeks. The US could reach as many as 419,000 Covid-19 deaths by January 16th, the CDC said in their latest update; The lower end of that forecast was 378,000 deaths (from the current 337,000 deaths). France's National Authority for Health on Thursday approved the use of the Pfizer-BioNTech vaccine against Covid-19 for people age 16 and older, with the vaccination campaign kicking off on Sunday.

What a Difference a Year Makes!

Despite all the negative press coverage throughout last year, 2019 had ended with a big bang as market participants began projecting growth to enter 2020 on a firmer footing. The catalyst? Two of the biggest hurdles constraining the world economy in previous years had just been cleared as the year was drawing to an end. The China trade deal (Phase 1) and U.K. election results were sorted, taking out a major tail risk hanging over markets. Furthermore, these two positive developments were taking place amid broader signs that demand across much of the world was stabilizing as key global manufacturing gauges trough - prompting economists at Morgan Stanley to project that the global economy would recover momentum in 2020 with growth improving from a trough of 2.9% in the fourth quarter of 2019 to 3.4% by the end of 2020. Such uptick, according to the MS team, would be driven more by the rest of the world whilst the U.S. economy continues going strong (nominal growth north of 4.0% and an unemployment rate hovering at a record 3.5% low). This renewed optimism, in turn, did help Wall Street stocks shoot to fresh records - with the Dow Jones Industrial Average closing on December 31st at 28,538 (5,211 points, or 22% higher compared to the 2018 December-end closing!)

Fast Forward to 2020!

Clearly there was no way of knowing what the onrushing train of 2020 would bring! Whilst we usually caution our valuable clients against holding mainstream views on financial markets and remind them regularly that what "*everyone knows or assume to know*" is usually unhelpful at best and wrong at worst (also noting that what CFOs/Finance Officers should worry most about & really focus on are the risks that other market participants haven't considered), little did we project that the year would become a series of rolling disasters and tragedies! Yes, there were some warning signs: Mounting geopolitical tensions in our region, an unconventional / moody US President, increasingly volatile climate conditions as well as growing racial and income disparities across the globe. And then there was the unfamiliar: A cluster of cases of a deadly flu-like disease in Wuhan, China that seemed to the rest of the world to be somebody else's problem until it turned into the worst global pandemic the world has seen in more than a century. But in the midst of those adversities, there was sacrifice (our great appreciation to all frontline workers who dedicated their lives and efforts to serve their communities with strength, courage and dedication) and there was hope; A sense of optimism and confidence to never be afraid to trust an unknown future to a known God (the Real one! Not the WHO, Bill Gates or Dr. Fauci 😊)

What's in Store for 2021?

To a large extent, the events and ruptures of the past few years (especially 2020) have made forecasting redundant, even though the expert view for 2021 unanimously agrees that investors shouldn't expect any more fireworks (or at the very least, nothing close to the wild market gyrations of 2020).

Looking ahead, it is clear the Covid-19 health crisis has reshaped the business and markets' landscape and that there is no going back! It is also getting difficult to shake off concerns about what dangers might be lurking in the distance, particularly as most Wall Street firms get bullish about global growth and equities zooming higher in 2021 - as the US and European economies stage a "*dramatic recovery*." A recent survey by Deutsche Bank shows investors ranking potential complications with the mass vaccination effort as a top concern for global financial markets in the coming year, particularly if the virus mutates and "*dodges*" the vaccines. Fund managers also point to the risks of serious side effects of approved vaccines as a worry for markets and whether too many people will refuse taking it. Elsewhere, bulls on Wall Street continue basing their optimistic bets on more reassurances received from the US Congress and Federal Reserve to use all available tools at their disposal to support the economy until it fully heals, whilst committing to keep short term rates near 0% for a considerable period of time (to infinity & beyond 😊).

Still, even with a flood of global monetary and fiscal support running near wartime levels, the pandemic's shocks – coupled with heightened political / geopolitical uncertainties – could still get worse before the crisis is fully over. For instance, the US Navy is now concentrating many of its most powerful vessels in and around the Arabian/Persian Gulf (USS Georgia, a cruise-missile submarine, escorted by missile cruisers USS Port Royal and USS Philippine Sea – together packing 398 vertical tubes for cruise missiles and other munitions, far more firepower than most navies can deploy in total!) and many fear that something big is about to happen during the US presidential transition period, though it is not totally clear what!

Additionally, should inflation come back with a vengeance following the unleashing of pent up demand for consumption, travel and business, central bankers could start debating monetary tightening - discussions that would produce an immediate spike in medium / long-term rates and market volatility, also resulting in a potential halt in investments.

Regionally, Gulf Arab nations approach 2021 with their currency pegs steadied, oil prices clawing background, and bond investors keen for the region's high-rated, high yielding names. But the pain from Covid-19 and the slump in crude prices might not be over, and S&P Global Ratings predicts only a "*modest recovery*" in the six-nation Gulf Cooperation Council through 2023, after a contraction of about 6% this year. And whilst the region's markets are used to geopolitical frictions, investors will eagerly wait to see how Joe Biden's presidency might tilt the picture and whether the 2015 Iran nuclear (a deal ditched by Donald Trump in May 2018) would soon be reinstated.

On this last cautious note, I would like to thank all our clients/colleagues for their continuous support & business dealings with GIB throughout 2020! Merry Xmas, Happy New Year and best of luck navigating volatile markets in 2021!

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