LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
December 21st, 2020

Mutation

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Global stock markets drifted upwards last week as vaccine distribution began and the US Congress moved closer to a stimulus deal. The S&P gained 1.29% while the broader MSCI World Index rose 1.72%. The US Treasury curve continued to steepen.

US Stimulus Talks

US markets were largely concerned with the additional stimulus package coming out of Washington DC. Congress was able to pass another $900 billion in aid after extended talks this weekend. In the backdrop, economic activity was shown to have slowed during the prior week as the US surge in cases has led to more shutdowns. Weekly jobless claims rose slightly, to the highest level since early September. We also saw retail sales contract in November, the worst showing since April.

The US active treasury curve remains normal and is steepening, a sign that credit markets are not too concerned over the long-term prospects of a US recovery. While the US economy has remained resistant to negative interest rates, interest rates remain near all-time lows on the short end of the curve, leaving razor thin margins for investors with low ability to take on price uncertainty.

Tesla becomes part of the S&P index on 12/21. The S&P 500 Index is a market weighted benchmark, meaning Tesla will become a meaningful component of many indexers' portfolios going forward. The company experienced a 70% run up since the announcement of its inclusion on November 16th.

The United Kingdom

The UK became more insular as a new strain of COVID was reported in the country. It has got a 70% higher infection rate but does not appear to be more deadly. Prime Minister Boris Johnson had to effectively cancel Christmas as the country developed a new tier of restrictions. Under Tier 4 restrictions, non-essential shops, hairdressers, and leisure and entertainment venues must close, with a new stay at home message introduced.

Also affecting the nation, the Brexit transition period will end on December 31st. Negotiations to engage in the EU single market are still being held up by fishing rights. Without compromise, it appears likely the UK will enter a no-deal scenario. This has largely been anticipated in the markets, which shows the FTSE 100 index down 13.66% for the year.

Conclusion

The long-term prospects of the market look positive despite touching all-time highs. The new COVID mutation infecting the UK appears concerning given the 70% higher infection rate. However, we lack sufficient information to know if this is really a problem. Mortality rates do not appear to be higher in this strain and there is no evidence suggesting it will be resistant to the vaccine that is currently being distributed. In the short run, markets will likely fluctuate between concerns over the new lockdown measures and hope for the efficient distribution of approved vaccines.

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Stock Market Performance

	12/18/20	W-o-W	M-o-M	Y-o-Y
DJIA	30,179	0.4%	2.5%	6.9%
S&P 500	3,709	1.3%	4.0%	16.2%
MSCI World	2,666	1.7%	4.8%	14.3%
S&P/TSX	17,535	-0.1%	3.8%	3.0%
BSX	1,886	0.0%	-11.5%	-20.8%
FTSE100	6,529	-0.3%	2.3%	-13.4%
DAX	13,631	3.9%	3.2%	3.1%
CAC	5,528	0.4%	0.3%	-7.2%
Nikkei	26,763	0.4%	4.0%	11.8%
Hang Seng	26,499	0.0%	-0.2%	-5.0%
Shanghai	3,395	1.4%	1.4%	12.5%

Key Rates and Prices

Currencies	12/18/20	Month ago	Year ago
EUR	$1.23	$1.19	$1.11
GBP	$1.35	$1.33	$1.31
JPY	¥103.30	¥103.82	¥109.55
CAD	$0.78	$0.76	$0.76
CHF	$1.13	$1.10	$1.02
AUD	$0.76	$0.73	$0.69

Fixed Income

3M LIBOR	0.24	0.22	1.91
3M Treasury Bill	0.08	0.07	1.56
2Yr Treasury Note	0.12	0.18	1.63
10Yr Treasury Note	0.95	0.87	1.92
Fed Funds Rate	0.25	0.25	1.75

Commodities

Gold/oz.	1,881.35	1,872.24	1,475.40
Silver/oz.	25.81	24.34	17.02
Copper/lb.	3.62	3.22	2.80
Oil	49.10	41.82	60.93

Global Economic Calendar (December 21st - December 27th)

Mon:
Tues: GDP (UK); GDP (US); Consumer Confidence (US)
Wed: Mortgage Applications (US); Initial Jobless Claims (US); Durable Goods Orders (US); Personal Income and Spending (US); New Home Sales (US)
Thurs: Abbreviated Trading
Fri: Holiday