CLARUS
INVESTMENT SOLUTIONS

Wealth Alliance

HALF-YEARLY
MARKET COMMENT

REPORTING PERIOD

July – December 2020

13th January 2021

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Key Market Developments

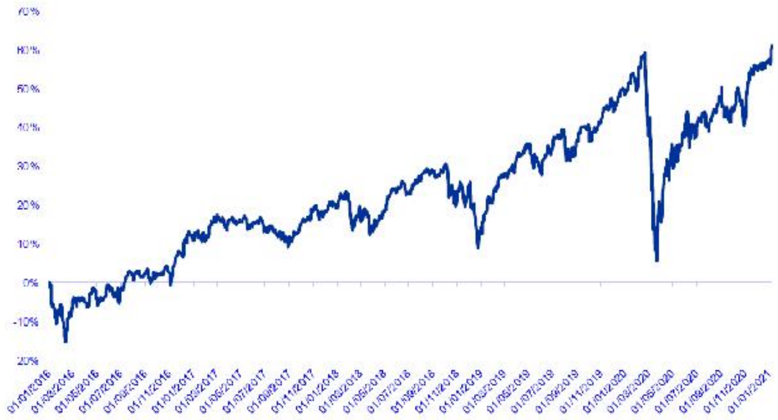
Table 1 **Market Returns**

Asset Class	Index/Proxy	Net Return in EUR
		6M to 31-Dec-20
Global Equities	MSCI World Net	12.9%
Eurozone Equities	MSCI EMU Net	13.0%
Emerging Market Equities	MSCI Emerging Markets Net	20.4%
Eurozone Government Bonds	Merrill Lynch Euro Sovereign > 5 Yr	4.3%
Eurozone Inflation-Linked Bonds	Barclays Euro Govt Inflation-Linked	4.8%
Eurozone Corporate Bonds	iBoxx Euro Corporates	4.0%
Emerging Market Local Currency Bonds	J.P. Morgan GBI-EM Global Diversified	-5.2%
Irish Property	Irish Life Exempt Property Fund	-1.2%
Commodities	Dow Jones UBS Commodities Total Return	19.0%
EUR vs USD		9.6%

- The second half of last year brought excellent returns from almost all financial assets. Equities in particular were very strong, extending their recovery from the March lows. The pace of the market recovery accelerated in November as it became clear that several Covid-19 vaccines would soon become available. Investors have been willing to look through to the expected post-vaccine normalisation of economic activity, despite the nearer term threats from the swelling third wave of the pandemic. The US election results were also a positive catalyst; it is generally expected that a Biden administration will pursue further fiscal stimulus. As a result the MSCI World index reached an all-time high late in the period, and registered a gain of 6.3% for the full year. The chart overleaf shows the path of MSCI World over the past five years.

- 2020 was marked by huge divergences among stock market sectors, which were more significant than the dispersion of country and regional performances. Technology was the standout winner over the full year, while Energy was at the bottom of the table. In the US market, their respective returns were +44% and -33%. The final quarter of the year saw some reversal of that pattern, as expectations of economic rebound took hold and the oil price rose. The Energy sector gained 28%, followed by Financials returning 23%.

MSCI World Total Return (EUR)



Source: Zurich Life

- The dominance of the Technology sector was consistent with the broader outperformance of growth against value. That trend has been in place throughout the past decade, and accelerated in 2020. The rise of the mega-cap 'FAANG'[1] stocks has greatly concentrated the leadership of market indices. In the US, the top 10 companies account for 27% of the S&P500 index, a level which is close to a historical record.

- Eurozone equities performed well relative to the rest of the world, gaining 13.0%. That reflected a greater cyclicality in their sectoral mix, and some catching-up of the region's long underperformance against the US. This came despite a gain of nearly 10% for the Euro against the dollar. The exchange rate movement was driven by the plunge of the US official interest rate to zero, and the expectation that it was likely to remain there for a considerable time.

- Emerging market equities performed very well, returning 20.4% in Euro terms. Emerging markets are highly leveraged to a pick-up in global trade, while China in particular has displayed relative economic strength as it made an early recovery from the effects of the pandemic. Small cap stocks around the world also responded well to the improved economic outlook, showing some outperformance against their larger counterparts in the latter months of the year.

- Fixed income markets registered further gains in spite of starting, for the most part, from ultra-low yield levels. Eurozone sovereign, inflation-linked and investment-grade corporates all returned between 4% and 5%. Emerging markets debt by contrast had a negative return, down 5.2% in Euro terms. The decline was a function of exchange rate factors rather than yields, as most emerging market currencies tend to move in tandem with the dollar over the short term.

[1] Facebook, Apple, Amazon, Google, Netflix

- Irish commercial property had a small decline in capital terms. Most of it came from a 15% - 20% mark-down of the retail sector, where valuations have been hit hard by the impact of Covid. Office valuations were little changed, but the outlook for the year ahead is uncertain. Even if there is a rapid return to normal conditions, the practice of partial working-from-home is likely to remain, and so the structural demand for expensive city-centre office space may be reduced.

- Commodity prices rose strongly in the second half of the year, in tandem with improved economic expectations. The recovery was broad-based, encompassing energy, metals and agricultural products. Gold bucked the trend, falling 2.6% in euro terms. Investors' focus was diverted from it as market sentiment improved, but it remains a useful portfolio diversifier for the long-term investor.

Market Outlook

The transition to zero interest rates has driven the valuations of all financial assets to expensive levels by historical standards. Equities must be the primary source of positive real returns, given how low investment-grade bond yields have fallen. But we cannot expect the scale of returns to be anything close to what has been enjoyed up to now. Within that, those areas which have lagged – value stocks, Europe, emerging markets – may have a little more to offer.

Markets can remain on high ground provided the unprecedented level of central bank support is maintained, along with accommodative fiscal policies. But valuations leave no margin of safety against a negative shock. Perhaps the greatest investment risk for the longer term is a potential pick-up in expected inflation, which might force a tightening of monetary conditions. There are no immediate signs of a resurgence in inflationary pressures, but investors need to remain vigilant for that possibility.