BREWIN DOLPHIN

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2021 is the Year of the Ox. Will it be a bull market based on sustained recovery?

2021 is the Chinese Year of the Ox and, according to wealth manager Brewin Dolphin, previous years of the Ox saw bull markets with an average return of 12.3%*. Whilst it is impossible to accurately predict growth rates for 2021, Brewin Dolphin believes that it could be a good year for global markets with vaccinations for Covid-19, continued technological innovation, spectacular consumer growth in China, and a Biden presidency heralding an era of international co-operation and investment in green infrastructure to combat climate change.

Guy Foster, head of research at Brewin Dolphin, said: “There is no doubt that 2020 is a year we will all want to forget. It is a year in which we saw the Covid-19 pandemic cause a global recession and the impact of lockdowns across the world bringing the worst slump in activity in peace time. In the UK, we saw the economy shrinking, business closures, job losses and rising government debt.

“The sheer volatility of 2020 is illustrated by the Dow Jones Industrial Average plunging (peak-to-trough) by 37% during the height of the pandemic in March but staging a stunning rebound of 62% in November to reach a record high.”

Speaking at Brewin Dolphin’s investment outlook event, Janet Mui, investment director, said: “The difference between Wall Street and the real economy is stark. The US S&P 500 index saw one of the fastest rebounds in recent history, despite the ongoing pandemic, as markets anticipated a better economic outcome and enjoyed massive stimulus support. A milestone was reached on November 24th as the Dow Jones Industrial Average reached a record high, fuelled by optimism on news of the vaccine, the beginning of transition in the White House and the appointment of Janet Yellen as Treasury Secretary.

“Looking ahead, we predict that 2021 will be much better; it will be characterised by a period of sustained recovery primarily because of the arrival of the vaccine. However, other supportive factors include the continued rise of technology and innovation, a new and more collaborative US president, and the rise of consumer spending in China.”

Citing the Bank of England’s GDP forecasts, Janet said the UK economy experienced a ‘nice bounce’ in the third quarter of 2020 and anticipates that 2021 will see a sustained recovery which ‘will not be as bumpy’ primarily because of the number of vaccines becoming available.

Looking further ahead, she anticipates that the UK economy will be recovering well by 2022. “We think that 2022 will see the UK’s GDP return to its pre-Covid level,” she said. “However, we do not expect it to match pre-Covid growth trends because of the permanent scarring caused by the job losses and business closures of the economic impact of lockdowns during this year.

“Whilst 2021 will see sustained recovery, this will be slow mainly because it will take time to vaccinate most of the population. However, economic growth will be driven by the fact that there will be less restrictions on the economy as lockdowns cease to be a feature of everyone’s lives. We will also see a gradual return to international travel which will boost the travel, leisure and tourism sectors in the UK and globally. Travel and hotel groups will experience a more gradual recovery, but it is likely stock prices of stronger companies within these sectors will recover more quickly. Overall, the economy will also see a boost from pent-up demand as people start to spend again.”

She believes that technological innovation will continue to thrive after the pandemic and we will see an era of further change. Online habits are likely to remain, particularly with a structural increase in online shopping. In 2020, internet sales accounted for more than 30% of all retail sales**, a trend Janet expects to continue. “We will see a structural shift in habits and trends with more and more people shopping online and using technology,” she said.

The arrival of a Biden presidency in the US is likely to mean more international co-operation. “We believe that Biden will focus on controlling the pandemic, boost fiscal stimulus and help to re-instate a multilateral approach with allies,” she explained. “He will encourage greater fiscal stimulus, rebuild the US economy and invest in ways to stem climate change. There could be less political tension as he has indicated he wants better relations with international allies. We expect he will work with the UK and the two countries will co-operate on an international stage, helping to inspire other nations to do the same."

There will be a further boon for the global economy with the continued rise of the Asian consumer. "This is an exciting growth story which will persist as China transitions increasingly to a consumption and services-based economy," said Janet. "Asian consumers are becoming more of a force for the world and fuelling the growth of companies like Alibaba and LVMH."

In terms of 2021 being a bull year, Janet says: "The MSCI World Index Performance shows that previous Years of the Ox have seen an average rise in performance of 12.3% across mid- and large-cap corporates across 23 developed markets in 1973, 1985, 1997 and 2009. Whilst it is impossible to predict the figures for next year, we anticipate that 2021 will be a time of more durable recovery where sectors affected by the pandemic will improve. We expect recovery to remain uneven due to the scarring of economic impact caused by global lockdowns."

Stocks – winners and losers

Looking specifically at stocks, John Moore, investment manager, Brewin Dolphin, said that 2020 was a year where M&A activity favoured 'unremarkable' businesses which is indicative of valuations being attractive. The takeover of companies such as William Hill, RSA and McCarthy and Stone, none of them market leaders but all relatively cheap, serve to illustrate his point.

He said: "As we move towards the end of 2020, and with new vaccines on the horizon, companies or private equity may be eyeing takeover opportunities and should generally be prepared to take on more risk. Companies with well-documented difficulties, but with prices that reflect this, like Sage, First and Crest Nicolson, could be on the shopping list of opportunists in the M&A space with a higher risk profile. At the other end, you have great businesses that larger rivals may covet, such as Admiral."

John expects companies with large, technology and enabling platforms to thrive in 2021, as they will benefit from the continued rise of online activity. He cites Amazon, Alibaba, and Microsoft as winners but explains that established, traditional businesses also benefit from the technology revolution. "Companies like Disney, McDonalds, Nike and Experian have accelerated their digital reach and sales capabilities and have been beneficiaries of the rise of online sales. We believe that technology has been great for traditional businesses who have been able to adapt their business models," he said.

Other potential winning stocks include companies that have been able to benefit from the rise in Asian income and consumption such as Alibaba, IHG Hotels, Apple and LMVH. John says away from these headline multinationals there some good funds that offer exposure to companies benefiting from the grassroots Asia consumer boom including Baillie Gifford China Growth Trust, Fidelity Asian Values and Morgan Stanley Asia Opportunities.

- **Ends -**

* MSCI World Index Performance

** Online shopping as a percentage of retail sales (source: ONS)

PRESS INFORMATION

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*as at 30th September 2020

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