



MONTHLY REPORT

NOVEMBER 2020 EDITION



CONTENTS

Introduction	3
Macro Commentary	4
Fixed Income Markets	5
Commodity Markets	7
Equity Markets	9
Sources	12

RCTG MARKET RESEARCH

GLOBAL MARKETS INSIGHTS

ALL DATA WITHIN THIS REPORT IS MEANT FOR EDUCATIONAL PURPOSES AND IS SUBJECT TO CHANGE

IN THIS ISSUE

- **Global Macro Commentary** – This month, major indices have hit all-time highs as investor optimism skyrocketed. Scientific breakthroughs surrounding the COVID-19 vaccine and economically favourable election results have shown investors what may be the light at the end of the tunnel.
- **Fixed Income Markets** – Approval of the COVID-19 vaccine has led to a steepening of the U.S. Treasury Yield curve. This is due to increased buying in the shorter-end regarding unpredictability in its efficacy.
- **Commodity Markets** – Oil closed at an eight-month-high amid a weakening dollar and optimism surrounding a decline in U.S. crude supplies and recent breakthroughs on a COVID-19 vaccine.
- **Equity Markets** – News of the production of a readily available vaccine for the COVID-19 virus has demonstrated the potential to heal the global economy.

GLOBAL MACRO COMMENTARY

As we approach year-end, the low interest rate environment and continued issue of government bonds for refinancing purposes have amped up uncertainty. Vaccine optimism has led to further steepening of the U.S. Treasury curve, with lots of buying in the short-end of the curve due to unpredictability of the vaccine's effectiveness and its impact on financial markets.

Furthermore, while it seems as though central banks are trying to phase out open asset purchasing by the end of the year, term interest rates have been climbing amidst growing concerns about inflation. However, with relative implied forward rates, the markets seem to have a more bearish view due to the recently increased asset allocation towards equities.

The month of November proved to be a pivotal moment for the equity markets as the positive news surrounding the mass production and distribution of a vaccine led to a rally across most major equity indices. It is important to note that general gains across indices are not actually indicative of the performances of the companies within them. When looking closely, it becomes apparent that these gains are only realized by a small number of firms.

The equity markets in the U.S. saw the greatest overall gains globally; the S&P 500, Dow Jones, and NASDAQ increased by 9.1%, 12.08%, and 12.8% respectively. The Canadian equity markets followed suit; the change in leadership is believed to be preferable for future economic and trade collaborations. Also, Eurozone shares surged in November with the MSCI EMU index gaining 17%. The MSCI Asia ex Japan index recorded a record-high return of 10.3% with the news of vaccines boosting investor sentiment. The weak position of the U.S. dollar also played a key role in the amplified returns.

A notable trend in commodities this month includes the rally of crude oil thanks to optimism surrounding promising COVID-19 vaccine announcements. Oil futures in New York advanced 1.8% on November 25th. U.S. crude stockpiles fell by 754,000 barrels in the last week of November. At the same time, the positive developments surrounding vaccines have spurred a swift reshaping of the oil futures curve, with several key markers moving into a bullish structure in recent days.

Gold ended November at a 5-month low as vaccine news pulled its prices down by nearly 6%. Silver futures declined by 5.1% while gold futures lost 5.6%. Overall, positive vaccine news has weighed on dollar-pegged precious metals.

FIXED INCOME MARKETS

Month in Review

It is expected that the Fed will phase out most of its asset purchasing as we near the end of the year, especially with the U.S. Presidential Election uncertainty out of the way. With a positive outlook regarding the vaccine, term interest rates have been on the rise even with concerns for rising inflation.

Vaccine optimism has led to curve steepening with longer-term yields stabilizing the Treasury bond yield curve. Bond markets seem to be pricing in a rate hike as early as 2023 upon the news of global distribution of the COVID-19 vaccine. On another note, the Bank of Canada (BoC) will continue to standby and maintain low rates for now. Too much divergence between the Fed and the BoC such as differing overnight rates could lead to currency appreciation.

Rates

As time progresses, we continue to see the effects of the ultralow interest rates and policy rates that have been set due to the implications of the COVID-19 pandemic. These incredibly low rates have caused high stock prices and above-average valuations, which have indicated that equities may be a superior choice over the uncertainty in fixed income markets. While U.S. federal debt costs have decreased this year, uncertainty surrounding increasing interest rates coincides with anticipated economic benefits.

Alongside low inflation, challenges surrounding the continuous issuance of government bonds refinanced in today's interest rate environment aid in uncertainty for the future. At this point, the possibility of negative rates is minimal as a future policy move for the Fed.

Credit

High yield corporate bonds exhibited positive returns for four weeks in a row with positive fund flows at \$1B entering the Thanksgiving Holiday. This makes it the leading asset class in the fixed income sector for the month and fourth quarter.

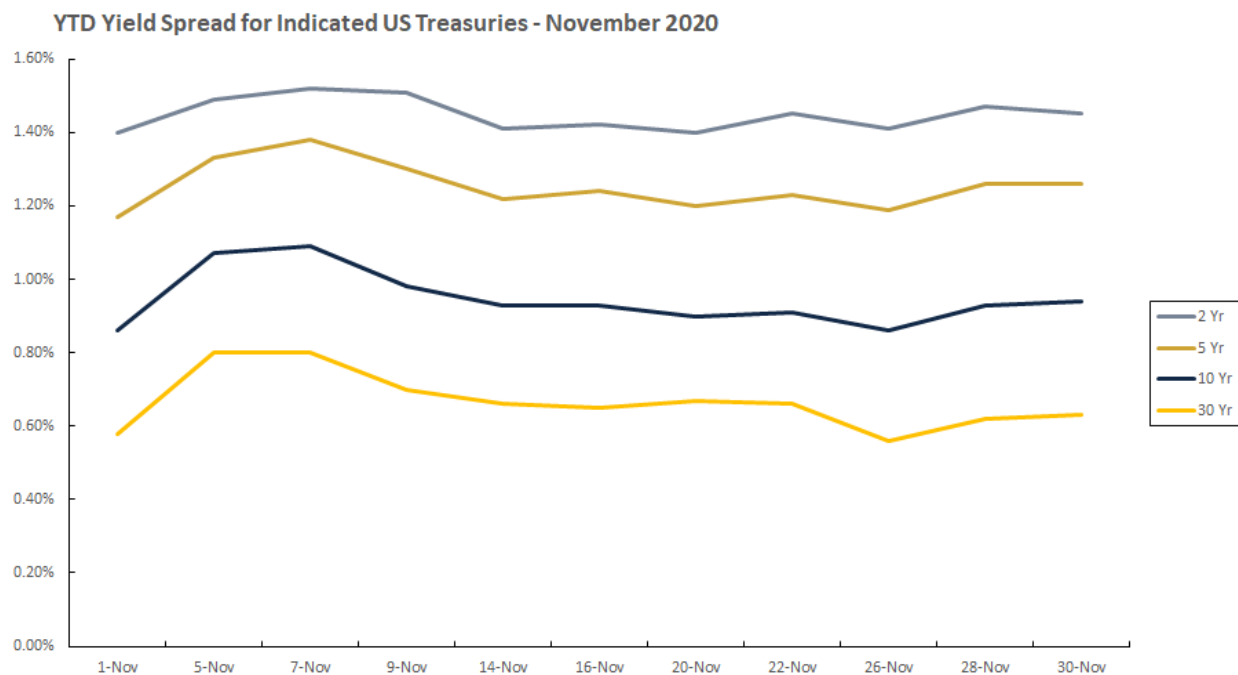
Investment-grade corporates tightened 21 bps in the month to end the month at 106 bps, the narrowest in nine months and only 11 bps wider year-to-date. The sector has benefited from positive vaccine news in the month and overall credit supply exceeded expectations at \$121.8B.

Municipals

Although municipals went down by 0.30% for November as shown by the Bloomberg Barclays Municipal Bond Index, the asset class outperformed taxable bonds with Treasuries ending the month 0.94% lower and the Bloomberg U.S. Gov/Credit Index finishing 0.60% lower.

Municipal issuance saw a record-setting month as issuers seek to capitalize on historically low interest rates. October's almost \$70B in new issue deals came to market against the backdrop of political uncertainty as municipalities rushed ahead of the election. Year-to-date supply was 26.6% higher than the same time last year, amounting to a total volume of nearly \$415B.

For the rest of the year, we anticipate that the demand for munis will remain strong as the post-election environment mitigates uncertainty. The muni market will continue to benefit from an eventual agreement on future fiscal stimulus measures.



COMMODITY MARKETS

Oil

Crude oil rallied in November, with gains attributed to optimism around vaccine candidates that have shown significant promise in preventing COVID-19 infections in late-stage trials. At the same time, investors are wrestling with a rising number of COVID-19 cases in the U.S. and Europe, as well as the possibility that U.S. cases could further accelerate following the Thanksgiving Day holiday in the U.S.

Futures in New York advanced 1.8% on November 25th. An Energy Information Administration report showed U.S. crude stockpiles fell 754,000 barrels in the last week of November. At the same time, positive developments on a vaccine have spurred a swift reshaping of the oil futures curve, with several key markers moving into a bullish structure in recent days. The higher forward prices are boosting the incentive for oil producers to lock in their supplies for the coming years. Prices have also been supported by renewed geopolitical tensions, with recent attacks on a fuel depot in the Saudi city of Jeddah and on an oil tanker in the Red Sea.

Bloomberg Dollar Spot Index fell as much as 0.2%, boosting the appeal for commodities priced in the currency. “It has been a really good run. We haven’t seen a run like this since the spring after we went to negative prices,” said Peter McNally, global head for industrials, materials and energy at Third Bridge. “Sentiment certainly has changed pretty quickly. At any point, it all could take a breather, but lately, it feels like supply and demand fundamentals are heading in the right direction.”



While optimism over vaccines has helped lift the U.S. crude benchmark more than 25% in November, OPEC+ deferred its upcoming meeting to evaluate the group's output strategy. In addition, Iraq's deputy leader said, "OPEC should take members' economic and political conditions into account when deciding production quotas rather than adopting a "one-size-fits-all" approach."

"There could still be additional petroleum product weakness and higher inventories, before a material rebound manifests," Bart Melek, head of global commodity strategy at TD Securities, said in a note. "This combined with uncertainty on the OPEC+ production side, given these relatively high price levels, suggests that crude has gone as high as it can for now."

Gold

Gold ended November at a 5-month low as vaccine news pulled prices down by nearly 6% and silver futures declined by 5.1%. "Clearly the gold and silver trade continue to 'look through' the unrelenting flare of infections in the U.S., as prices continue to fall sharply off lofty vaccine expectations," analysts at Zaner Metals wrote in a daily note. "Furthermore, gold and silver prices have continued to fall sharply despite the assistance of a fresh downside breakout in the dollar."

Gold futures lost 5.6% for the month, according to Dow Jones Market Data. Prices trade more than 1% below their long-term, 200-day moving average that stands at \$1,806.15, according to FactSet data. The decreasing trend for gold has been mostly due to reinvigorated enthusiasm for risky assets, such as stocks, as progress on vaccines inspired bullish equity investors, driving buying away from safe-haven bullion.

The positive vaccine news has weighed on dollar-pegged precious metals, even as the buck continued a trend of weakness that would ordinarily bolster the case for foreign buyers using weaker currencies to purchase the precious commodity.

EQUITY MARKETS

Month in Review

The month of November proved to be a pivotal moment for the equity markets as the positive news surrounding the mass production and distribution of a vaccine led to a rally across most major equity indices. Likewise, the divide in political power brought on by the split results of the 2020 U.S. elections has also contributed to the positive growth trends.

It is important to note that general gains across indices are not actually indicative of the performances of the companies within them. When looking closely, it becomes apparent that these gains are only realized by a small number of firms. A trend similar to that of the previous months is present where certain companies are seeing significant returns and growth, while others are continuing to suffer losses brought on by the subsequent effects of the pandemic. This is reflected in the volatility index, which rose to over 40 points early in the month alongside the election. It continued to remain over 20 points for the remainder of the time. Overall, investors remain speculative as the future of the global economy continues to be uncertain.

U.S. & Canada

The equity markets in the U.S. saw the greatest overall gains globally, with the S&P 500, Dow Jones, and NASDAQ increasing by 9.1%, 12.08%, and 12.8% respectively. The most cyclical areas of the U.S. stock market rose the most with the greatest gainers being the energy, industrials and materials, and financial sectors. Other than the breakthroughs seen surrounding the vaccine, the primary cause behind the sharp recovery is the division of power between the Democratic and Republican parties. Joe Biden and Kamala Harris secured the executive branch for the Democratic Party, Republicans took control of the Senate, and the House of Representatives has been divided equally. Most investors believe that the divide will limit government influence in business and foreign affairs, allowing for companies to properly grow and recover.

Up North, the Canadian equity markets followed suit; the change in leadership is believed to be preferable for future economic and trade collaborations. This is reflected in the values of the countries' currencies; the U.S. dollar depreciated while the loonie appreciated. The S&P/TSX Composite Index saw a similar gain of 10.3%, comparable to the major indices in the U.S.

Europe

Eurozone shares surged in November with the MSCI EMU index gaining 17%. Positive news on vaccines supported shares, with the eurozone a particular beneficiary given the region's high exposure to global trade. In contrast to the spike in cases seen in North

America, there are encouraging signs that COVID-19 infection rates are slowing in several European countries, enabling governments to start easing lockdown restrictions. U.K. equities outperformed in November on the back of the positive vaccine news, helping them to recoup some of their year-to-date underperformance versus other regions. The positive sentiment was also perpetuated by hopes that a “no-deal” Brexit might be avoided. The standstill/transition arrangement between the U.K. and the European Union, known as the Withdrawal Agreement, ends this year on December 31st.

Asia

The MSCI Asia ex Japan index recorded a record-high return of 10.3% with the news of vaccines boosting investor sentiment. The weak position of the U.S. dollar also played a key role in the amplified returns. By contrast, equity markets in China have begun to experience stagnation on a year-to-date basis. This underperformance has been attributed to a rotation in market leadership. Japan’s equity market rallied in November, driven by vaccine-related news and delayed results from the U.S. presidential election. Overall, the major equity indices in Asia saw a net-positive growth with Japan leading the pack as the Nikkei 225 rose 14%.

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