

A more certain outlook



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What a difference a week makes. The US election result and successful vaccine trials mean we can at last look ahead with more certainty. We explore what it means for the investment environment.

Investment update — November 2020

America has decided

Although not all the votes have been counted and Donald Trump is contesting the result, Joe Biden will almost certainly be inaugurated as America's 46th president in January 2021. The election was close and there's been no 'blue wave' that many expected, where the Democrats would win the White House as well as both houses of Congress.

History suggests financial markets are comfortable with a balance of power. Biden's plans to spend and increase taxes are likely to be moderated by the Republicans. There could still be an impact on company earnings in the near term, particularly for the largest businesses. Yet the Democrats have elected a moderate, which if Obama's presidential term is anything to go by, should be positive for equity markets.

Notably, America now has a president who should behave in more predictable ways than the one he's replacing. There are likely to be implications for global trade – China may find a clearer path to strike a deal, but negotiations will probably be harder for a post-Brexit UK. At the same time, Biden is more environmentally friendly and is likely to expand the Medicare insurance programme.

Fighting back against the virus

The announcement that BioNTech's Covid-19 vaccine — developed with the help of US partner Pfizer and China's Fosun — is on course to become the first approved vaccination in the US and EU is a significant milestone. It allows markets to look through the pandemic with more certainty to a time when many aspects of the global economy will be able to get back to business.

The inoculation is based on mRNA technology that has never been used before. It was found to be 90% effective in phase 3 trials involving more than 43,000 participants, which far exceeds the threshold required by regulators. The positive data has lifted hopes that several other vaccines that rely on the same technology could also yield encouraging results.

Global stock markets have soared at the prospect that they will be effective. Notably, there's been a substantial rotation of sectors with those that depend directly on a vaccine – such as transportation, recreation and hospitality – rebounding strongly. One of the strongest-performing stocks has been IAG, which owns a number of leading airline brands including British Airways.

Better days ahead at last

Over the past few years, investors have focused on four themes – US equities, the technology sector, growth companies and holding government bonds for diversification. The market's recent performance suggests these trends can change quickly.

Going forward we expect the gap between value shares (those that are out of favour with most investors) and growth shares (companies that are expanding rapidly) to be increasingly questioned by investors. Our portfolios are positioned to benefit from these shifts in investor sentiment and market dynamics.

On a geographical basis, emerging market equities, particularly in Asia, look attractive. Valuations are still reasonable and many of these countries are not experiencing the second wave of the virus that's already gathering pace in many Western countries. Meanwhile, UK equities also look cheap on an international basis, where prices already reflect the risk of bad news related to Brexit.

We caution against investing in the US equity market in line with the weights currently dictated by the mainstream indices. The strong performance of a handful of large technology firms means passive funds represent a high concentration of risk. These companies remain vulnerable to any new regulations, while Biden's victory and positive news about the Covid-19 vaccines are already catalysts for investors to focus on other areas of the market.

Investing in a more certain world

The vaccine hasn't arrived early enough to head off the second wave of the virus, but the science behind it is solid. Meanwhile, Biden didn't achieve the blue wave the polls forecast but he has won the presidency. This combination means we can look ahead with more certainty than we've been able to for many months.

Investors have been desperate for some positive news and there's always a chance they've overreacted, and that markets could suffer a short-term pullback. Yet these two events allow businesses to plan ahead and investors can seek to take advantage of areas that are likely to benefit as the global economy recovers.

Find out more

If you'd like to find out more about our approach to investing or have any other questions about your portfolio then please contact your financial adviser.

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