# Research

Macquarie Wealth Management

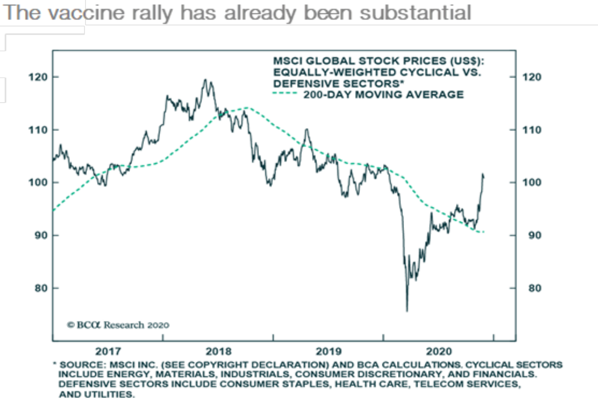
## Quick Comment

# The Everything Rally

Markets are in an ebullient mood fuelled on by optimism around a COVID-19 vaccine and ultra-low policy rates. Despite record level gains in many risk assets throughout November, the investor frenzy does not appear to have slowed just yet.

The list of performance records is impressive (…and worrying). The MSCI All Country World index rose 12.2% in November to post its best month in history. Global equity funds just posted their largest 3-week inflows in history. Short positionings in US equities are at near 20-year lows. The Australian market rose 10% to post its best month in 27 years and the rally in many “Value” sectors, while not coming with all-time record tag lines, has been as equally impressive throughout the past month both globally (Euro Banks +30%, Global Energy +35%) and locally (Energy +28%, Financials +16%).

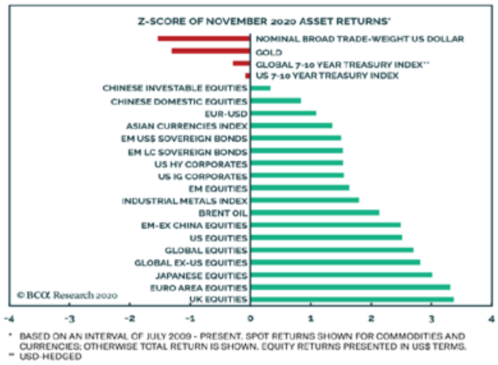
The vaccine rally has already been substantial




Source: BCA Research, November 2020

We did not foresee the scale of the rotation that is now underway (but we suspect few did). While a vaccine was always going to be positive news (particularly when timing is earlier than expected and efficacy rates higher than expected), the rush to position in cyclically exposed COVID-19 losers and to a lesser extent other risk assets has been feverish.

…and is broad based across most risk assets

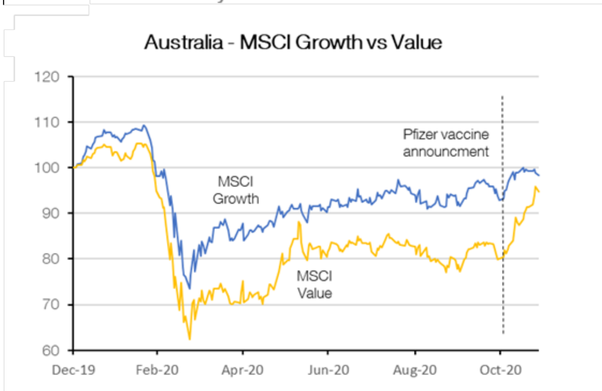



Source: BCA Research, November 2020

Talk of a market “melt-up” is already occurring but there are few who are calling a reversal or recommending you fight the tape. We are also in this camp. While the size and scale of the rally in certain sectors is concerning and feels like it conveniently overlooks any near term concerns that might arise from a number of headwinds such as vaccine distribution delays or deteriorating near term economic momentum, the outlook for 2021 remains positive for equity markets and many other cyclically exposed risk assets.

We expect equities to continue moving higher in 2021, underpinned by stronger economic growth driving a recovery in earnings and dividends, ultra-low rates supporting valuations and abundant liquidity chasing higher returns and/or income levels as risk aversion begins to normalize.

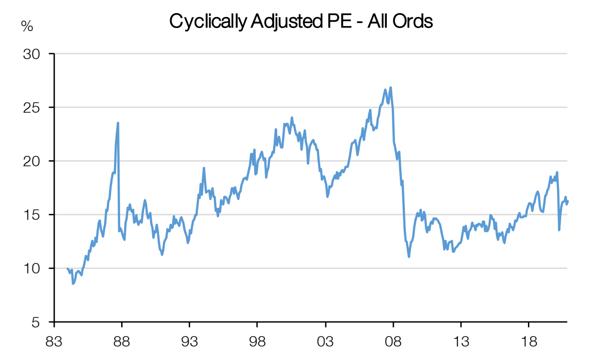
Australia's Value rally has been ferocious




Source: Macquarie Quant Research, November 2020

While leading economic indicators remain elevated and pent up demand /excess savings high, we do expect economic momentum to deteriorate in coming months (driven predominantly out of Europe and the US). However, it is likely that markets will look through this weakness and towards a global economy that normalizes further into 2021.

Australia is not expensive on a CAPE




Source: Schiller, MWM November 2020

It is quite likely that the rally runs out of puff in coming weeks, before picking up steam again in the new year. However, its more likely that it reaches short term exhaustion rather than because risks to the outlook rise dramatically.

We still think it is premature to worry about a rapid rise in bond yields (or valuations) given the desire by many central banks to keep yields low and a “loosening” in inflation targets which translate into central banks remaining dovish for the foreseeable future. This does not mean yields don’t rise – they will, but they creep higher rather than undermining equity markets via valuation compression.

We still think conditions support “value” over “growth”, but we do not recommend building an investment strategy build based only on “style” alone. At this stage, improving growth fundamentals alongside the lagged benefits of easy liquidity suggest the style rotation has much further to go. This translate into further upside for Australian equities with leadership still coming from beaten down cyclicals and financials. We stick with our overweight equities / underweight bonds allocation heading into 2021.

**Jason and the Investment Strategy Team**

The report was finalised on 9th November 2020

Recommendation definitions (Macquarie Australia/New Zealand)

Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

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