

# FLASH BOURSIER

## CHRISTMAS COMES EARLY

### Overview

The S&P 500 was up 1.6% last week, hoisting the US stockmarket to a record high on the back of vaccine progress and high hopes for new fiscal stimulus in the US. In Europe, indices were by and large unchanged as defensive stocks staged corrections.

For months we've been discussing the dent to services from the pandemic. In contrast, manufacturing has recovered (ISM manufacturing index at 57.5 in November), unaffected by the rising number of cases. No doubt that Europe has been badly hit by the selected business closures, suggesting a drop in GDP for the fourth quarter. In China and the US, however, a recovery has been observed, helped by the surge in home services. And the advent of Covid-19 vaccines will make the recovery more widespread.

The rate of job creation in the US labour market slowed during November, with only 245,000 jobs added compared with the forecast for 460,000 and October's figure of 638,000. Hiring was restricted by measures to slow the spread of the virus, with the service sector grinding to a near halt. The unemployment rate was steady at 6.7% as many people were no longer classified as looking for a job. The higher average wage was not a good sign as it suggested attrition in low-income jobs. All in all, employment figures were disappointing but raised hopes for a massive new fiscal package, which is currently being discussed in Congress.

The good news about vaccines has increased investors' risk appetites. The high-yield bond index

has risen by more than 4% over the past month, with the triple-C junk category surging by 8.7%. Overall, the yield on all high-yield debt has fallen to 4.5%. The record inflows into this asset class since the beginning of November, reportedly amounting to over USD 1.5 trillion in European markets alone, shows that investors are repositioning into cyclical stocks, pinned back by the recession arising from social distancing measures. Some indicators suggest that the US equity market has become overly expensive. The ratio of market capitalisation to GDP currently stands at 183% compared with a historical average of 93%. This metric is definitely defying gravity. That said, interest rates could remain low for a very long time to come, which makes equities all the more appealing.

The price of crude oil has recovered by more than 25% since the beginning of November (Brent 48.7, WTI 45.6) as the prospective 'return to normal' stands to boost demand. OPEC countries and their allies have agreed to adjust their output upwards from January 2021 by an additional 0.5 million barrels/day.

#### Highlights:

**Record high in US equities**

**Oil prices up 25% since early November**



The SMI was nearing support at 10350 points this morning after failing to punch through resistance at 10600 points. This support is important because if the index were to close below it, the next downward target would be at 10230 points.

### Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
<b>Latest</b>	0.89	1.08	10'364.50	3'539.27	13'298.96	5'609.15	5'935.98	3'699.12	12'464.23	26'751.24	1'251.04
<b>Trend</b>	↓	➡	↓	↑	➡	↑	↓	↑	↑	↑	↑
<b>%YTD</b>	-7.80%	-0.44%	-2.38%	-5.50%	0.38%	-6.17%	-21.30%	14.50%	38.91%	13.08%	12.24%

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### OIL STAGING A COMEBACK?

Oil prices in 2020 (USD)



The price of crude has shot up by 25% since the beginning of November on hopes of an economic recovery. OPEC countries and their allies have agreed not to prolong production cuts. Instead they will adjust daily output by an additional 0.5 million barrels from January onwards.

This will reduce the volume of crude oil voluntarily withdrawn from the market by the alliance from 7.7 million barrels/day to 7.2 million barrels/day as of 1 January 2021. They have also agreed to conduct monthly reviews to align themselves with recovering demand while maintaining a minimum price.

Demand for crude oil has tanked this year, with a consumption shortfall of 29 million barrels per day seen at the worst point of the crisis. Despite a gradual return to normal growth in the global economy, the thirst for oil may never return to previous levels. Some of the changes will be permanent. OPEC countries have had to acknowledge this fact, even if they can spread the decline over the next two decades.

Surplus production capacities are so high that no demand scenario will absorb all this oil. Eventually, a choice will have to be made between closing the wells or accepting significantly lower prices. The Covid-19 pandemic has simply accentuated a long-term trend that is changing our energy mix and where that energy comes from.

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