CAPITAL GROUP®

# World markets review — 2020

## Equities

**Global stocks rose** in the face of a deadly pandemic, boosted by massive government stimulus measures and the rapid development of coronavirus vaccines. In a year marked by unprecedented volatility, stocks declined sharply from late February to March, followed by a remarkable nine-month rally that lifted several key market indexes to all-time highs.

**Technology stocks led markets higher,** gaining more than 40%, followed closely by consumer discretionary stocks. Digitally focused companies prospered as millions of homebound customers switched to online services for food, entertainment and other basic needs. Conversely, energy stocks plummeted as government-imposed lockdowns brought the global economy to a virtual standstill.

| | December 2020 | | 4Q 2020 | | YTD 2020 | |
|---|---|---|---|---|---|---|
| **Equity index returns (%)** | **U.S. dollar** | **Local currency** | **U.S. dollar** | **Local currency** | **U.S. dollar** | **Local currency** |
| S&P 500 | 3.8 | 3.8 | 12.1 | 12.1 | 18.4 | 18.4 |
| MSCI ACWI | 4.6 | 3.8 | 14.7 | 12.8 | 16.3 | 14.2 |
| MSCI ACWI ex USA | 5.4 | 3.5 | 17.0 | 12.6 | 10.7 | 6.0 |
| MSCI World | 4.2 | 3.5 | 14.0 | 12.4 | 15.9 | 13.5 |
| MSCI Emerging Markets IMI | 7.4 | 6.1 | 19.9 | 16.1 | 18.4 | 19.2 |
| MSCI EAFE | 4.6 | 2.5 | 16.0 | 11.4 | 7.8 | 0.8 |
| MSCI Europe | 4.7 | 2.2 | 15.6 | 10.3 | 5.4 | –2.2 |
| MSCI Pacific | 4.5 | 2.8 | 16.7 | 13.2 | 11.9 | 6.2 |

Source: RIMES

## Fixed income

**Government bonds advanced** as central banks around the world slashed interest rates and ramped up stimulus programs in an attempt to counter the damaging effects of the pandemic. The U.S. Federal Reserve cut rates to near zero in March, launched an array of emergency lending programs, and expanded an aggressive asset purchase program.

**In foreign exchange markets,** the U.S. dollar fell against the euro, the yen and most other currencies. Signaling a potential end to a decade of dollar strength, the euro rose 9% against the greenback. Late in the year, the British pound staged a strong rally as Brexit negotiators approved a new trade agreement governing the relationship between the United Kingdom and the European Union.

| Fixed income index returns (%) | Dec 2020 | 4Q 2020 | YTD 2020 |
|---|---|---|---|
| Bloomberg Barclays U.S. Aggregate | 0.1 | 0.7 | 7.5 |
| Bloomberg Barclays Global Aggregate | 1.3 | 3.3 | 9.2 |
| Bloomberg Barclays U.S. Corp IG | 0.4 | 3.0 | 9.9 |
| Bloomberg Barclays U.S. Corp HY | 1.9 | 6.4 | 7.0 |
| JPM EMBI Global Diversified | 1.9 | 5.8 | 5.3 |
| JPM GBI-EM Global Diversified | 3.5 | 9.6 | 2.7 |

| Exchange rates (% change vs. USD) | Dec 2020 | 4Q 2020 | YTD 2020 |
|---|---|---|---|
| Euro | 2.3 | 4.3 | 9.0 |
| Japanese yen | 1.0 | 2.2 | 5.3 |
| British pound | 2.4 | 5.7 | 3.2 |
| Canadian dollar | 1.7 | 4.8 | 1.8 |
| Australian dollar | 4.7 | 7.7 | 9.8 |
| Swiss franc | 2.4 | 3.9 | 9.5 |

Source: RIMES. Returns are in USD.

**Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.**

## North America

**U.S. equities ended 2020 at record highs,** showing resilience during a volatile year that included a pandemic-induced recession, a sharp bear market and a contentious presidential election. Massive stimulus helped calm markets even as government restrictions aimed at curbing the spread of COVID-19 brought segments of the economy to a near standstill. The Standard & Poor's 500 Composite Index rose 18% and the Nasdaq Composite advanced 45% as growth stocks soundly outpaced value.

**The economy suffered the deepest recession since the Great Depression.** Gross domestic product plunged an annualized 31.4% in the second quarter as work and recreation were heavily restricted to slow the spread of the virus. The unemployment rate peaked at 14.7% in April, but recovered to 6.7% by November.

**Record stimulus measures were enacted to support markets and the economy.** In March, Congress passed the $2 trillion CARES Act, which included aid for individuals and businesses most economically impacted by the pandemic. A $900 billion stimulus package followed in December, after COVID-19 cases accelerated in the fall. The Federal Reserve cut rates 150 basis points in March, bringing the lower range of its target rate to zero for the first time since 2015.

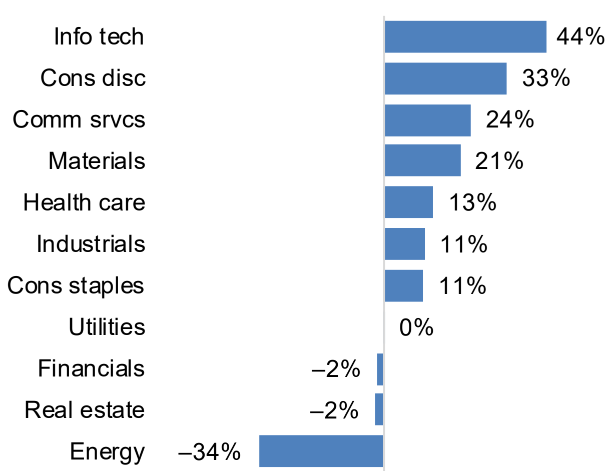
**The bear market was the sharpest in U.S. history.** The S&P 500 declined 34% over the 23 trading days from its February 19 peak through March 23. Markets then rallied 70% through year-end. Small-cap stocks were especially volatile: the Russell 2000 Index recorded both its best and worst quarter in history and ultimately finished with a 20% gain for the year.

**Technology and consumer stocks that benefited from stay-at-home restrictions led markets**, including Amazon and Netflix. Graphics chipmaker NVIDIA surged 122%, as the video game industry boomed. Tesla soared 743% during the year; most of the gains came before it was added to the S&P 500 in December and became the index's sixth-largest constituent. Overall, the information technology sector rose 44%. Consumer discretionary and communication services gained 33% and 24%, respectively.

**Energy lagged all other sectors,** declining 34%. The significant reduction in travel reduced the demand for oil, which was briefly priced below $0 for the first time in history over fears of dwindling storage capacity. The real estate and financials sectors were also negative for the year, each declining 2%.

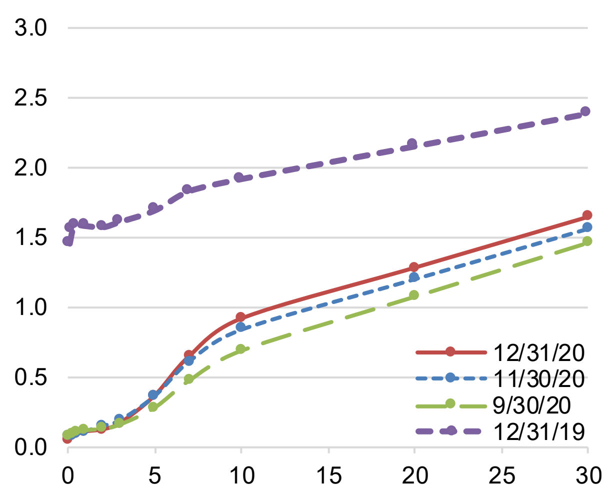
**U.S. fixed income markets rebounded sharply** supported by extraordinary measures from the Fed. The central bank slashed interest rates to near-zero in March, launched an array of emergency lending programs, and purchased corporate and government debt. The yield on the benchmark 10-year Treasury note closed the year at 0.92%, down from 1.92% on January 1. Corporate spreads ended the year near pre-pandemic levels.

**S&P 500 total returns (YTD)**




Source: RIMES.

**U.S. Treasury yield curve (%)**




Source: Bloomberg

Returns are in USD unless otherwise noted. 

## Europe

**European stocks declined** in local currency terms as the eurozone economy suffered the effects of government-imposed lockdowns and a severe recession. COVID-19 struck Italy first, then spread throughout the continent, crippling key industries including tourism, banking and aircraft manufacturing. Overall, the MSCI Europe Index fell 2% in local currency terms. However, in U.S. dollar terms, the index registered a 5% gain as a weak dollar provided a currency tailwind to international equity markets.

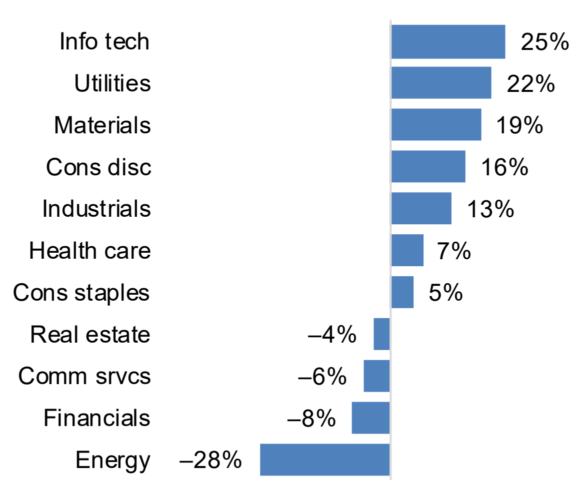
**The energy sector fell the most,** losing more than 30% amid a precipitous decline in global oil demand. Shares of energy giants BP, Royal Dutch Shell and Total were among the largest detractors in the index. Financial stocks were also hit hard, particularly many European banks that suspended dividend payments in order to conserve cash. Shares of HSBC, Europe's largest bank, declined 35% during the year. French bank Société Générale fell 40%.

**Communication services stocks lost 12% in aggregate** amid fierce competition for wireless customers in Europe. Some telecom providers were hurt by lower handset sales and declining revenue from roaming charges as international travel largely came to a halt. Shares of Spain's Telefónica fell 38% for the year. Elsewhere, real estate stocks slumped amid concerns that commercial real estate investments may be hindered by the decline of shopping malls and the rise of work-from-home business models.

**Information technology posted the largest gains,** rising more than 14%. Shares of ASML soared as the Dutch semiconductor equipment maker reported better-than-expected earnings growth in 2020 and forecast double-digit growth in 2021. Infineon Technologies shares also rose sharply on higher demand for the German company's computer chips used in electric vehicles. The materials sector rose 11%, boosted by British mining company Rio Tinto.

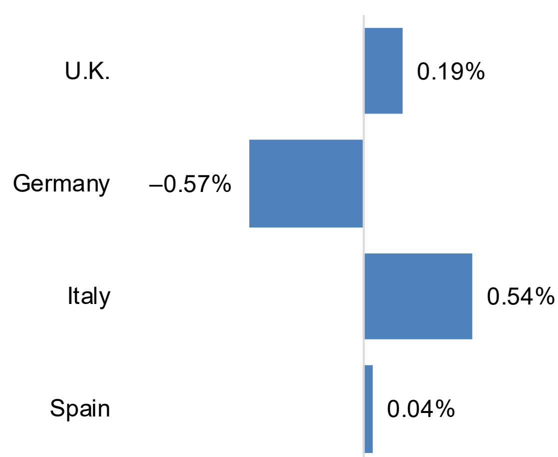
**In fixed income markets,** government bonds advanced as the European Central Bank expanded its already aggressive bond-buying stimulus efforts. The yield on Germany's benchmark 10-year note declined 38 basis points to end the year at –0.57%. In currencies, the British pound rallied late in the year as Brexit negotiators approved a trade agreement governing the U.K.'s relationship with the European Union. The announcement allayed fears of a "no-deal Brexit," which would have resulted in a reversion to less favorable rules under the World Trade Organization.

**MSCI Europe total returns (YTD)**




Source: RIMES. Returns are in USD.

**10-year government bond yields**




Source: Bloomberg

## Asia-Pacific

**Asia-Pacific stocks posted solid gains in 2020,** completing a strong rebound from the depths reached early in the year amid the coronavirus shock. The MSCI Japan Index rose 14% and the MSCI Pacific ex Japan Index added 7%. The communication services and information technology sectors led Japanese stocks higher, while energy lagged. The Japanese yen gained 5.3% against the U.S. dollar, benefiting from its safe-haven status in a tumultuous year.

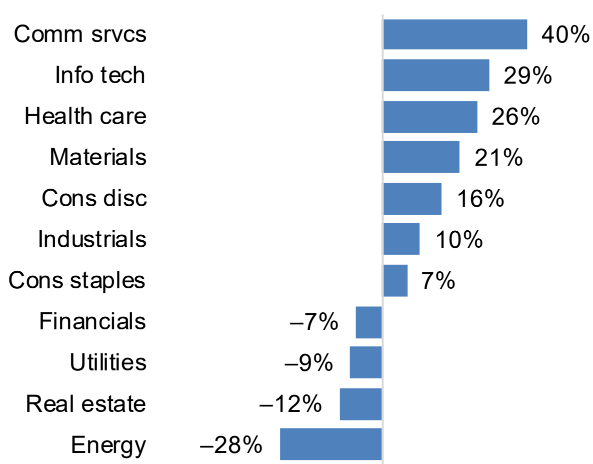
**The Japanese economy entered its first recession since 2015** as the pandemic exacerbated a slowdown that began with a consumption tax increase in late 2019. The Summer Olympics in Tokyo were postponed to 2021, dealing another blow to the economy. Japanese exports were weak as China, its largest export destination, saw a pronounced slowdown in economic growth. Retail sales and household spending sharply lagged year-ago levels for most of 2020. Amid the turmoil, Prime Minister Shinzo Abe resigned in September due to ill health. His successor, Yoshihide Suga, promised policy continuity. Late in the year, Japan joined 14 other Asia-Pacific nations in signing the Regional Comprehensive Economic Partnership, a trade agreement covering about one-third of the global population and economic output.

**More stimulus was unveiled.** The Bank of Japan unleashed massive programs to buy government and corporate debt and support bank lending, but it kept its key policy rate at –0.1% and 10-year government bond yields capped at around 0%. The government launched three stimulus packages to aid households and businesses. The third package, announced in December, included funding for green and digital initiatives aimed at post-pandemic economic development. However, the stimulus failed to push core inflation toward the BOJ's target of 2%.

**Hong Kong endured a deep recession** and was caught in an escalating geopolitical showdown between the U.S. and China. The U.S. revoked Hong Kong's special trade privileges after China imposed a new security law that threw into question the territory's autonomy from the mainland. Widespread anti-government protests weighed on business activity and retail sales.

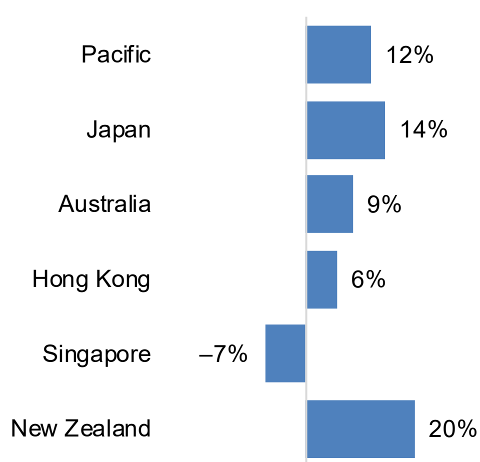
**Australia fell into its first recession in nearly 30 years.** A slowdown in China, its largest export market, hurt the economy, as did rising trade and diplomatic tensions between the two countries. The Reserve Bank of Australia cut the cash rate and target yield on three-year government bonds to a record low 0.10% and announced plans to buy A$100 billion of government bonds over six months. The Australian dollar surged 9.8% against the U.S. dollar, among the biggest gains against the greenback in 2020. The MSCI Australia Index rose 9% and the MSCI New Zealand Index added 20%. The MSCI Singapore Index fell 7%.

**MSCI Japan total returns (YTD)**




Source: RIMES. Returns are in USD.

**MSCI Pacific total returns (YTD)**




Source: RIMES. Returns are in USD.

## Emerging markets

**Emerging markets stocks posted solid gains** for a second consecutive year, led by China's economic rebound and the technology-export-driven economies of Taiwan and South Korea. A weakening U.S. dollar and strengthening prices for industrial metals and oil further boosted gains. Overall, the MSCI Emerging Markets Investable Market Index bounced back from steep losses in early 2020 to finish with an 18% rise for the year, led by the information technology and health care sectors.

**Asia's technology heavyweights propelled the benchmark index.** Shares of Taiwan Semiconductor Manufacturing and Korea's Samsung Electronics climbed 76% and 58%, respectively, on strong demand for chips used in 5G smartphones. Elsewhere, shares of China's leading internet services platforms Tencent, JD.com and Meituan all soared on robust sales growth. E-commerce giant Alibaba ended 10% higher, but lost ground in the fourth quarter after heightened government scrutiny of its business practices.

**The MSCI China Index climbed 29%,** making China one of the world's strongest equity markets for the year despite geopolitical tensions with the U.S., Europe and India. Being the first country to shut down its economy and the first to reopen during the pandemic, China led the global economic rebound from April onward after quarantine measures eased. Industrial activity and exports showed continued strength as factories resumed operations and construction activity picked up. In the third quarter, China's economy grew 4.9% on an annualized basis, following growth of 3.2% in the second quarter.

**Major Asian markets outpaced Latin American countries.** The MSCI Korea IMI soared 46% and the MSCI Taiwan IMI surged 39% on strong exports. Indian equities rebounded as pockets of India's economy began to bounce back starting in July after second-quarter gross domestic product plunged 23.9% year on year. All Latin American markets had negative returns for the year.

**On a sector basis, cyclical stocks declined,** which weighed on commodity-rich countries. The energy sector fell 15% as Brazilian oil giant Petrobras and Russian energy leaders Lukoil Holdings and Gazprom experienced sharp declines. The financials sector lost 8%, with Brazil's leading private sector banks Itaú Unibanco and Banco Bradesco posting double-digit losses. Overall, the MSCI Brazil IMI slid 19% and the MSCI Russia IMI fell 12% despite strong rallies in the last three months of the year.

**Emerging markets bonds rose in both local currency and U.S. dollar-denominated terms** as investors sought higher yielding government debt in a low rate world. Among the larger debt offerings, Qatar sold $10 billion of bonds; Egypt, $5 billion; and Indonesia, $4.3 billion. ■

**Year-to-date total returns (%)**

| Equity indexes (USD) | |
|---|---|
| MSCI Emerging Markets IMI | 18.4 |
| MSCI Brazil IMI | –19.1 |
| MSCI China IMI | 29.4 |
| MSCI India IMI | 16.1 |
| MSCI Mexico IMI | –1.6 |
| MSCI Russia IMI | –11.6 |
| MSCI South Africa IMI | –4.9 |
| MSCI Korea IMI | 46.0 |
| MSCI Taiwan IMI | 39.1 |

| Fixed income / currency | USD debt (USD) | Local debt (USD) | Local debt (Local) | Exchange rate (vs. USD) |
|---|---|---|---|---|
| JPM EMBI Global Div | 5.3 | --- | --- | --- |
| JPM GBI-EM Global Div | --- | 2.7 | 8.4 | --- |
| Brazil | 9.0 | –16.0 | 8.4 | –22.6 |
| Indonesia | 9.8 | 12.8 | 14.2 | –1.2 |
| Malaysia | 10.2 | 9.1 | 7.3 | 1.7 |
| Mexico | 7.3 | 8.7 | 14.7 | –5.2 |
| Poland | 5.6 | 8.5 | 6.8 | 1.6 |
| South Africa | 9.0 | 3.1 | 8.3 | –4.8 |
| Turkey | 10.7 | –13.5 | 8.1 | –19.9 |

Source: RIMES

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Unless otherwise noted, all returns are in U.S. dollars and assume the reinvestment of dividends. Country stock returns are based on MSCI indexes.

Bloomberg Barclays indexes are unmanaged, and results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

Bloomberg Barclays U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market.

Bloomberg Barclays Global Aggregate Index represents the global investment-grade fixed income markets.

Bloomberg Barclays U.S. Corporate Investment Grade Index represents the universe of investment grade, publically issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements.

Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index covers the universe of fixed-rate, non-investment-grade debt. The index limits the maximum exposure of any one issuer to 2%.

Dow Jones Industrial Average is a price-weighted average of 30 actively traded industrial and service-oriented blue chip stocks.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds.

J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

MSCI All Country World Index (ACWI) is designed to measure results of more than 40 developed and emerging equity markets.

MSCI All Country World (ACWI) ex USA Index is designed to measure equity market results in the global developed and emerging markets, excluding the United States.

MSCI EAFE® (Europe, Australasia, Far East) Index is designed to measure developed equity market results, excluding the United States and Canada.

MSCI Emerging Markets Investable Market Index includes large, mid-cap and small-cap segments, targeting a coverage range of close to 99% of more than 20 emerging equity markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Investable Markets Index.

MSCI Europe Index is designed to measure developed equity market results across 15 developed countries in Europe.

MSCI Pacific Index is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore.

MSCI World Index is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States.

Nasdaq Composite Index is a broad-based market-capitalization-weighted index that measures all domestic and international-based common-type stocks listed on The Nasdaq Stock Market.

S&P 500 Index is a market-capitalization-weighted index based on the results of 500 widely held common stocks. This index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.



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