2020: A year almost like any other

From the point of view of the financial markets, 2020 was a very good year. The sector praised itself for its ability to "see through" to the moment where the CoviD-19 pandemic is behind us. Many things were, however, unchanged despite the pandemic.

When the history books are written, 2020 certainly will be remembered as a year like no other because of the CoViD-19 pandemic. Some financial market historians will also point out that the year was remarkable because of the way the markets convincingly recovered from the chock of discovering the pandemic. Or rather, from the moment the governments had decided to support the global economy massively.

On the other hand, quite a few things were no different from what we have seen since the financial crisis 2008-2010. We mention a few:

There was a normal number of days where it was necessary to reshuffle the portfolios:

In our experience, every year provides 1 -2 opportunities for an investment manager to prove he/she can deliver an excess return. 2020 provided one major risk-off event and one major risk-on event providing the perfect background for a portfolio manager to excel.

Concerted central bank action held a hand under the market:

Just like in 2008-2009 there was a remarkably quick action from central banks and finance ministries around the world to ensure that the banks would not tank and make things much worse. It meant that the banks were promised nearly unlimited liquidity. Central banks also bought a truckload of potentially bad assets off the banks' balances, effectively guaranteeing that no credit crisis would emerge.

Central banks declared they would by the newly issued bonds:

The precipitous fall in economic activity meant a big hole in the public finances. Additionally, governments decided new support initiatives to prevent an even deeper economic crisis. The result was a huge new issuance of government bonds. Central banks bought nearly all the bonds, monetising the new debt.

Inflation went nowhere:

The theory that "printing money" leads to inflation was proved wrong – just like in 2008-2010. "Printing money" is of course only a popular way of describing the process whereby the central banks purchase newly issued government bonds. As in the aftermath of the financial crisis, central banks' balance sheets inflated strongly. Inflation is more a state of expectations, apparently.

Risk premia fell further:

The combination of the three above led risk premia on stocks and bonds of every stripe to fall, leading to strong price gains over the year. Just like in 2009-2010, asset price inflation was stronger than any other inflation.

Portfolio managers and traders claimed wisdom and excellence:

Nothing makes a portfolio manager look as good as increasing asset prices. At the end of the year many asset managers praised themselves and their wisdom to stay invested through the crisis in March. Gone are the panicked cries for help to the central banks to save the financial markets. Gone are the painful memories of being caught in a vicious market fall that "nobody saw coming".

Asset managers increased their belief in the Greenspan/Bernanke/Powell put:

The Greenspan put was the firmly held market belief that if markets begin to lose ground, the US (and other) central banks will do whatever necessary to stop the fall. The market was re-affirmed in this belief.

Active managers claimed that 2020 confirmed the need for – active managers:

The fact is that most passive portfolios and actively managed portfolios yielded reasonable returns. We see no definitive proof that active managers did better. This is different when talking about asset allocation portfolios, where good managers with good models made a difference.

Nobody got their market expectations right – again:

An integral part of the vast majority of balanced portfolios is the return expectations. They are so important that they are habitually decided by a committee of senior company executives. Close to 100 per cent of all market expectations we could track were simply wrong.

The biggest fad yielded nothing:

Arguably, ESG investments were the biggest new thing in 2020. Green bond issues and ESG portfolio managers rushed to profit from investor interest. Taken as a whole, ESG assets performed below average for their respective asset classes. Some of it is because the issuers or managers charged higher margins on these new, interesting products. Some of it is because it never leads to better results to limit the investment universe.

Learn and grow. (*in honour of John and Max, the original grumpy old men*)

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