View from the Dome

Newsletter, February 2021

CRUSHING ANT: Is Beijing clipping wings or preventing financial disaster?

Brexit crossroads – sovereignty but at what cost to markets and financial services?

World markets update

Get in touch if you want a meeting

CORNHILL MANAGEMENT

CRUSHING ANT: Is Beijing clipping wings or preventing financial disaster?

Chinese authorities have begun investigations into e-commerce giant Alibaba and ordered Ant Group, the world's largest financial technology company and Alibaba affiliate, to break up its operations. Some analysts believe the moves – which followed earlier criticism of Chinese regulators and banks by Alibaba owner Jack Ma – are a clear signal from the government to other large, domestic tech companies as Beijing looks to curb their growing power. But others believe regulators' growing fears over the potential systemic financial instability companies like Ant Group pose are behind the measures. We take a closer look.

Just a few months ago investors were gearing up for what would have been the largest IPO in history. Ant Group, an affiliate of e-commerce giant Alibaba, was scheduled to float at the start of November.

It was widely expected that the listing would confirm Ant as one of the largest companies in the world by valuation – investors had valued the company at USD 316 billion, which is comparable to the valuations of China's biggest banks and JP Morgan, which is often cited as one of the world's most systemically important banks.

But just days before trading was due to start on the Shanghai and Hong Kong exchanges, authorities in Beijing moved to shut it down. Regulators called in the financial tech company's executives, including Ant Group and Alibaba founder Jack Ma, at the time China's richest man, for talks before the IPO was called off with authorities citing "a change in the regulatory environment on financial technology".

Weeks later an antitrust investigation into Alibaba, over alleged monopolistic conduct, was announced and Ant Group was ordered to break up its operations.

The moves have given rise to speculation that Beijing is looking to rein in the power of Ma's empire, and other big firms, and send a message that no matter how big a corporation is, it is always subordinate to the Communist Party.

Bill Bishop, author of the China-focused newsletter Sinocism, wrote: "The party has once again reminded all private entrepreneurs that no matter how rich and successful you are it can pull the rug out from under your feet at any time."

The decision to stop the IPO came just weeks after Ma made controversial public comments about Chinese financial authorities.

Speaking at a conference in Shanghai on 24 October 2020, Ma, who is often called China's Bill Gates or Mark Zuckerberg, criticised what he said was outdated and overbearing regulation and state dominance of the Chinese banking sector.

"We shouldn't use the way to manage a train station to regulate an airport. We cannot regulate the future with yesterday's means," Ma said, and spoke of a "pawnshop mentality" behind the sector's regulation.

"By taking away entire categories of financial services, Beijing not only reduces Ant's value but freezes its growth prospects."

Tim Culpan
Bloomberg Opinion columnist covering technology

His comments were seen as a direct attack on government officials and state-backed media criticised Ma and justified the move. The People's Daily, the official government media mouthpiece, wrote that "financial security is an important part of national security" and called for financial institutions to "strengthen the Party's leadership". The state-run Economic Daily said suspending Ant Group's listing was to "better protect the rights and interests of financial consumers".

If the aim was to financially hurt Ma, there was success straight away. Between the IPO cancellation and the end of 2020, Alibaba, which owns part of Ant, shed more than USD 200 billion in market value.

Ma was once the richest man in China and until October had a personal wealth of just over USD 61 billion. But, according to the Bloomberg Billionaires Index, by the end of 2020 Ma's fortune had dwindled to USD 50.9 billion.
For the record, he is no longer the richest individual in China - that title now belongs to businessman Zhong Shanshan who is worth USD 77.8 billion.

Ma's fate will also have been noticed by other business tycoons, or companies that could be seen to be growing more powerful than Beijing would like, such as those in the fintech or social media and e-commerce industries.

"The Communist Party is the end-all and the be-all in China. It controls everything," said Alex Capri, a Singapore-based research fellow at the Hinrich Foundation, while talking to Bloomberg.

> *"While the talk about palace intrigue between Jack Ma and his various detractors is titillating, it does ignore the policy environment where slowing up the build-up of risk is clear and resolute as a priority."*
>
> Michael Norris
> *Research and strategy lead at AgencyChina*

"There is nothing that the Chinese Communist Party doesn't control and anything that does appear to be gyrating out of its orbit in any way is going to get pulled back very quickly," he said, adding "we can expect to see more of that."

But some China watchers suggest the government has been motivated by other more pragmatic concerns.

They argue that regulators were worried about the risks of a massively over-subscribed IPO to retail investors.

"The offering was oversubscribed 870 times – USD 2.8 trillion of orders just from retail investors in mainland China. There would almost certainly have been an enormous "pop" in the share price following the offering," wrote Bloomberg columnist George Calhoun.

When regulators realised this, they stepped in, he said, taking "panicked" action as they saw trillions of dollars of buy-side interest from small investors – including millions of Chinese retail investors, many of whom had loaded up with debt to buy shares – was about to cause a bubble and massively inflate Ant's stock. This bubble was likely to burst quickly, exposing those same investors, who would have probably paid the highest prices for shares with borrowed money, to huge losses.

It would not be the first time something like this has happened. In summer 2020, a Shanghai IPO for leading local chip maker SMIC was also oversubscribed and the company nearly tripled in value on the first day of trading. But prices soon fell rapidly as investors took a closer look at the realities of the business and investors, especially retail investors who had got caught up in the rush of the listing, were left nursing their losses.

"I think that the Chinese authorities suddenly realized that this same scenario was likely to develop out of the Ant offering. Market dislocations, excessive leverage, extreme price spikes, big losses for small investors. The Ant IPO was to have been 6 times the size of SMIC's IPO," said Calhoun.

"The prospect of much broader market instability loomed. This is what suddenly panicked the bosses in Beijing. They knew there would be a price to pay, but felt they had no choice," he added.

Experts have also said that the regulators' intense scrutiny of the company is just as likely to be driven by a desire to put a stop to what it sees as the potentially wider risk to the financial system posed by Ant's lending operations as any desire by Communist Party top brass to make an example of Ma.

Chinese authorities have in recent years repeatedly warned of rising household debt levels and the accompanying risks.

Figures released in August last year showed that over a period of a year, Ant Group originated loans to half a billion people in China, accounting for nearly a fifth of the country's outstanding short-term consumer debt as of June 2020. In a short time frame it rapidly became one of China's biggest originators of unsecured loans to individuals.

Ant Group is also China's biggest payments provider, with more than 730 million monthly users on its digital payments service Alipay. But digital lending has become its growth engine – and apparently the major area of concern for regulators. Ant acts as a marketplace for loans, matching borrowers with banks and then taking a fee for originating the loans while banks earn interest income on the debt.

The entire process usually takes little more than a few clicks on a mobile phone. But while simple and quick for Ant and the consumer, it is banks who take on the loan risk.

Hundreds of banks, including small and rural finance houses in a potentially weaker position to deal with serious bad loan problems, have agreements with Ant.

Authorities have ordered Ant to separate its various operations, including lending, insurance, and wealth management services, and it has been urged by the central bank to return to its origins as a payments business, and, importantly, ensure capital adequacy.

Under new draft rules published by the central bank, online lenders must provide at least 30% of any loan they fund jointly with the banks.

According to Michael Norris, a research and strategy lead at AgencyChina, this is a response by regulators worried that if Ant Group bears none of the risk of the loans it facilitates, it will simply try to process as many loans as possible, with little regard to the effect they might have on the lending institutions that actually underwrite them.

"The regulators would much prefer the risk is shared between the platform and the financial institution, and that the financial institution has a greater oversight of the lending practices and the matching criteria that are going on," Norris said.

Whatever the reasons behind the regulators' moves, other firms operating similarly to Ant Group, such as Tencent and Alibaba's e-commerce competitor JD.com, could now be in their sights.

"There is nothing that the Chinese Communist Party doesn't control and anything that does appear to be gyrating out of its orbit in any way is going to get pulled back very quickly."

Alex Capri
Research fellow at the Hinrich Foundation

Some of these have taken pre-emptive action. Online providers JD Digits, Tencent, Baidu and Lufax have all stopped selling interest-bearing deposits on their platforms after Ant was forced by regulators to do the same.

"I don't think anyone's immune at this stage, and certainly the principles by which Ant Group matches consumers and financial products is broadly similar to the way that Tencent does the same," said Norris.

"Ant Financial is the first cab off the rank when it comes to these new requirements and an increased level of scrutiny. While the talk about palace intrigue between Jack Ma and his various detractors is titillating, it does ignore the policy environment where slowing up the build-up of risk is clear and resolute as a priority."

"The party has once again reminded all private entrepreneurs that no matter how rich and successful you are it can pull the rug out from under your feet at any time."

Bill Bishop
Author of the China-focused newsletter Sinocism

Whatever the reasons behind regulators' recent moves regarding Ant, one thing is certain – that the company's operations are going to change.

But exactly what happens to Ant's business now will depend entirely on whether authorities in China end up merely giving it a slap on the wrist or force it to give up entirely its most important services, analysts say.

If it is the former, and regulators are only sending a warning to major internet and fintech firms but are not intending to make major changes to the sector, the firm may not lose too much. A crackdown on social media giant Tencent Holdings Ltd. in 2018 pushed the company's shares down initially but they later recovered to all-time highs. Alibaba also experienced something similar in the not too distant past when its stock was sold off following allegations by authorities of unfair business practices. It soon made up the lost ground.

And it could even be an opportunity for Ant, according to Zhang Kai, an analyst at market research firm Analysys Ltd. He told Bloomberg that with the fintech industry as a whole facing tougher oversight, Ant has more resources to cope with the challenges as an industry leader.

What would be worse for the company though would be if authorities took a much tougher route, either forcing it to be broken up – which would complicate the shareholder structure and hurt the company's fastest-growing businesses – or forcing Ant to give up its money management, credit and insurance businesses. The latter would mean halting its operations in the units that service and provide the company with access to half a billion people. Its wealth management business alone accounts for 15 per cent of its revenue while its credit business is the biggest revenue driver in the group, having contributed 39 per cent of total revenue in the first six months of 2020.

Tim Culpan, a Bloomberg Opinion columnist covering technology, wrote: "By taking away entire categories of financial services, Beijing not only reduces Ant's value but freezes its growth prospects. The company's payments business expanded just 13 per cent in the first half [of 2020], from a year prior, while digital finance grew 57 per cent. This means that in a worst-case scenario, Ant could lose 63 per cent of an operation that posted almost 60 per cent growth, leaving it with a much smaller and slower business."

Meanwhile, there has been growing speculation over the fate of Ma himself. At the beginning of January reports emerged claiming that Ma had not been seen in public since just before the Ant IPO, and scheduled TV appearances had been cancelled. It was suggested by some analysts that he was simply keeping out of the public eye at a time when his company is facing a damaging controversy.

There were further, unconfirmed, reports that he had been placed under a form of house arrest, before he appeared in a video posted online on January 20 by Chinese state media. He was shown speaking via video-link to teachers in rural China as part of a philanthropic event that month.

Although news agencies said there had been no independent verification of when or where the video was made, it appeared to quash speculation he may have been facing the same fate as other Chinese tycoons who have fallen foul of Beijing. In March last year, property tycoon Ren Zhiqiang went missing after writing an essay criticising China's Covid response and appearing to call Xi a clown. In September he was sentenced to 18 years in jail for corruption.

Alibaba shares jumped 8% on the Hong Kong stock exchange just after the video surfaced. ■

To find out more about Cornhill or our products please speak to your Regional Sales Manager or get in touch with us at ***newsletter@1cornhill.com***

Brexit crossroads – sovereignty but at what cost to markets and financial services?

After more than four and a half years of tumult and brinkmanship, the UK and the EU finally reached a Brexit trade deal at the end of 2020. The relief on markets, especially in the UK, was noticeable immediately, and the start of 2021 has been a bright one for UK equities. We take a look at their prospects now a deal has been struck and how long positive post-Brexit deal sentiment is likely to last.

Since June 2016, the seemingly never-ending saga of the UK's exit from the EU and subsequent relationship between the two has rarely been out of the headlines.

It drove a worrying – for markets – political instability in the country and was the central theme of two UK parliamentary elections, major political party splits, and led to the resignation of two Prime Ministers.

Meanwhile, exasperated UK businesses complained the government was ignoring their worries over, or leaving them entirely in the dark about, how trade would look after 1 January 2021.

The lack of clarity, political turmoil and the prospect that UK firms would be doing business with the nation's biggest trading partner on World Trade Organisation terms weighed heavily on sentiment towards not only UK stocks but the economy in general.

During this uncertain time the UK has been one of the worst-performing major global markets with valuations for UK equities recently hovering near 20-year lows, relative to Europe. In 2020, local stocks, as proxied by the FTSE 100 index, posted their worst performance since 2008. In comparison, the US stock market reached a number of record highs.

"The incredible value in UK equities cannot be ignored much longer."

Alex Wright
Manager of the Fidelity Special Values trust

Fund managers have said that over the last four years they have seen international investors cutting their UK exposure while UK wealth managers have been rebalancing to introduce a more global focus.

It was perhaps not much of a surprise that after a trade deal – albeit a very thin one, experts stress – was agreed on Christmas Eve, there has been relief on markets and sentiment towards UK shares has bounced.

The first week of 2021 saw the FTSE 100 gain more than 6%, compared to just 0.1% for the S&P 500 and 1% for Germany's DAX. Investors have ploughed cash into UK Exchange Traded Funds (ETFs) since the Brexit trade deal.

According to Bloomberg data, the largest such fund focused on the country's shares, the iShares Core FTSE 100 UCITS ETF, saw inflows of GBP 183 million in the final week of 2020 – the largest inflows since March. The iShares FTSE 250 ETF saw record inflows in December of GBP 400 million and in the first nine days of the year attracted another GBP 44 million.

But is this just a short-term bounce or the beginning of a longer-term improvement?

The uncertainty that surrounded Brexit depressed equity valuations, with 18 out of 24 sectors currently trading at a larger discount than usual relative to their European peers, according to officials at UBS Global Wealth Management. The group also says UK shares are currently trading at a 30% discount compared to their global peers, and have been at that level pretty much since the 2016 referendum.

This large discount is something that is likely to appeal to investors, many investment experts have pointed out.

Margaret Lawson, a fund manager at UK-based SVM Asset Management, told Interactive Investor: "There is an opportunity to catch up."

Alex Wright, manager of the Fidelity Special Values trust, added: "Two clear catalysts that we were hoping for have now occurred: the approval of multiple vaccines for Covid-19 and a Brexit deal.

"I believe both will quickly increase the interest in UK equities from domestic and foreign investors and from corporates… Now these two key uncertainties have passed, the incredible value in UK equities cannot be ignored much longer."

Some investment experts see this process as already having started, pointing to higher levels of merger and acquisitions activity in the UK.

> *“The future looks brighter for the UK market and UK equities, though investors must remember that Brexit will continue to be a drag on the UK economy for years to come.”*
>
> Chris Dyer
> *Director of global equity at Eaton Vance*

“A growing number of recent bids for UK-listed companies across a range of different sectors in recent months highlights that global corporates and private equity are finding attractively valued assets in the UK,” RBC Wealth Management wrote in a research note for investors in early January.

They expect this increased interest in UK companies to continue further into the year.

“We would expect investment flows to return now that a “no-trade deal” scenario has been avoided and as the UK is one of global fund managers’ biggest regional underweights due to the relentless outflows since the referendum to leave the EU. This, coupled with a cyclical rebound, should underpin UK equities,” the group said.

The fact that global investors have been underweight in UK shares in recent years also bodes well for UK stocks’ prospects this year, according to George Trefgarne, CEO of Boscobel & Partners, a political consultancy.

Writing for UK financial services company Hargreaves and Lansdown, he said: “…evidence of how underweight global investors are of UK shares comes from a recent Bank of America investor sentiment survey. It showed the world’s largest investors have the lowest relative weighting of UK shares in their portfolios on record. As they rebalance their portfolios, UK shares could benefit.”

He added that UK shares could also get a boost from British retail investors taking another look at attractively valued local market shares.

“Britain’s six million retail investors have preferred global equities to UK equities in recent years. For example, the latest data from the Investment Association shows that global equities was the best-selling sector in October 2020, with net inflows of £869m. The worst selling sector was UK equity income, with net outflows of £782m. If retail investors’ traditional appetite for UK funds returns, that could also benefit share prices,” Trefgarne said.

But while a Brexit deal has brought some relief, and an undoubted boost, at least for now, to sentiment, experts are urging caution.

> *“The agreement ends frictionless trade in goods by creating new non-tariff barriers such as cumbersome documentation and customs declaration, a new, costly, burden for exporters.”*
>
> RBC Wealth Management

While global, and UK, market sentiment is being bolstered currently by Covid vaccine roll-outs and optimism there could be a return to some kind of normality in countries around the world sooner rather than later this year, the pandemic is showing no signs of relenting and at the time of writing in January, in some countries the situation with infections and deaths was worsening.

Already strict lockdowns which are battering economies, including Britain's, have been tightened even further with dramatic impacts on growth prospects in at least the first quarter, if not beyond, expected.

"Over the longer term I have sincere concerns about the UK. Brexit does mean that the UK will likely lose some of its sheen. Being excluded from the world's largest single market area will see jobs, people, and capital flows trickle away from the UK..."

Seema Shah
Chief Strategist at Principal Global Investors

On top of all this, there are warnings about the continuing effects of Brexit in the future for UK businesses and the shortcomings of the deal itself.

Chris Dyer, director of global equity at Eaton Vance, told Bloomberg: "The future looks brighter for the UK market and UK equities, though investors must remember that Brexit will continue to be a drag on the UK economy for years to come."

Some of the potential drawbacks for UK businesses of Brexit itself, with or without a deal, had been known for some time.

There are concerns that the end to freedom of movement that comes with the UK leaving the EU could have a notable negative effect on labour availability in sectors usually employing a lot of EU workers, such as retail and food production. This could feed through in the form of higher labour costs and eventually higher prices for goods.

And although the Brexit deal means a bitter and chaotic 'no deal' scenario was avoided and firms will not face additional tariffs and quotas on goods, as firms are already finding out, trading is now far from smooth.

Within days of new post-Brexit trade rules coming into force, firms began reporting problems with getting goods into Europe. Major retailers such as Marks & Spencer, Debenhams and John Lewis suspended supplies to EU countries because of delays caused by Brexit red tape while others that use the UK as a distribution hub for European business face possible tariffs if they re-export goods to the EU. Parcels giant DPD also suspended services from the UK to Europe and Scottish seafood industry leaders have said that GBP 1 million of seafood a day was being stopped from leaving Scotland because of Brexit delays at UK ports.

RBC Wealth Management summed up the situation in a note to investors early in January, writing: "[The] barebones deal is a large step back from EU membership. The Treasury has estimated that a limited free-trade deal such as this one would result in the UK economy being at least five percent smaller over a 15-year period. The agreement ends frictionless trade in goods by creating new non-tariff barriers such as cumbersome documentation and customs declaration, a new, costly, burden for exporters."

Perhaps most importantly, the deal does not cover services, which account for 80% of the UK economy and 50% of the country's exports.

As an EU member, the UK could sell services to the EU as Brussels recognised British regulatory systems as "equivalent" to its own. This was especially important to financial services, a key industry for the UK, where it enjoys a competitive advantage over the EU.

But with Brexit that equivalence has disappeared and a series of time-limited agreements in a few specific areas, such as derivatives and clearing, have been agreed and is still to be negotiated in future.

Both sides have said that they will release a memo of understanding by March that will give further clarity on equivalence rules. Among UK financial institutions, there is an admission that Brexit uncertainty continues to linger.

NatWest Chairman Howard Davies said that while UK-focused banks were largely prepared for a "hard" Brexit by setting up subsidiaries on the continent, "what we can't prepare for is the uncertainty which persists".

He told cnbc.com: "At the moment we don't know what the future arrangement or the regulation of cross border entities in Europe will be. So, there is a limit to what financial institutions can do when there are still very significant moving parts here."

Investors may already be reacting to that uncertainty if the performance of UK bank stocks in the early part of the year is anything to go by.

While the UK market made gains in the first week of the year, shares in NatWest and Lloyds fell.

Speaking at the time, Susannah Streeter, senior investment and markets analyst at Hargreaves Lansdown, told Business Insider: "Banking stocks have given up some of their pre-Christmas gains as those worries about the potential long-term impact leaving the EU will have on financial services filter through."

Although a UK-EU trade deal was secured at the end of 2020, negotiations between Brussels and London on the post-Brexit relationship will continue as both sides look to address outstanding issues, including financial services.

Those in the industry are hoping that the current agreement is just a starting point, and not an end.

"While a deal is welcome, financial and related professional services are clear-eyed about the need for both sides to continue to develop the relationship in services in the years ahead," Miles Celic, chief executive officer of financial services lobby group TheCityUK, told Financial News, adding that the deal should be "a foundation on which to build, and not a ceiling to future ambition".

Others though seem more pessimistic.

Seema Shah, Chief Strategist at Principal Global Investors, told Reuters: "Over the longer term I have sincere concerns about the UK. Brexit does mean that the UK will likely lose some of its sheen. Being excluded from the world's largest single market area will see jobs, people, and capital flows trickle away from the UK…" ■

To find out more about Cornhill or our products please speak to your Regional Sales Manager or get in touch with us at ***newsletter@1cornhill.com***

WORLD MARKETS UPDATE

GLOBAL

Global equity markets' performance waxed and waned in January as early-month optimism on Covid vaccines and a new US presidential administration eventually faded amid persisting pandemic problems. The largely buoyant sentiment that had been seen on markets at the end of 2020 carried over into the early part of the new year as the approval and roll-out of vaccines continued in the US, Europe, and other countries.

There was also optimism over a large US stimulus package as Joe Biden prepared to take over the presidency.

But surging coronavirus infections, vaccination delays, and the continuing economic effects of lockdowns made it clear it will be a long time before nations and economies get back to anything resembling pre-pandemic normality.

The World Bank's latest global GDP growth forecast for 2021 stands at 4% and double-dip recessions are predicted in major economies, such as Japan, Eurozone states, and the UK.

US

S&P 500	-1.0%	Dow Jones	-2.0%
MSCI USA	-0.4%	NASDAQ	1.4%

US equity benchmarks climbed for much of the month on the back of vaccine optimism and hopes of a major new stimulus package under the new presidential administration. Local markets managed to largely shrug off unprecedented political turmoil – the US Capitol was attacked by supporters of the outgoing President Trump just hours after run-off elections gave the Democrats control of the Senate – although investors kept a close eye on attempts to remove Trump and a second impeachment of the president, and sentiment remained cautious in the run-up to Joe Biden's inauguration. However, shares tumbled towards the end of the month amid high volatility and elevated trading volumes driven by apparent targeting of selected stocks by retail investors using information from internet forums. So-called 'short squeeze' trading saw the value of shares in one particular company, videogame retailer GameStop (GME), rise USD 10 billion in a single day and left some investors with short positions in the company with massive losses. Other companies were targeted soon after on both US markets and abroad.

Meanwhile, Covid concerns continued to weigh on sentiment as January ended up being the deadliest month of the pandemic so far in the US with more than 95,000 deaths, easily eclipsing the 77,486 recorded in December.

In economic news, the Institute for Supply Management's gauge of manufacturing activity in December rose to its highest level for more than two years, coming in at 60.7. The services sector reading hit a three-month high at 57.2. But labour market indicators painted a less encouraging picture – nonfarm payrolls fell by 140,000 in December, which was the first monthly decline since April. However, IHS Markit's flash readings for both manufacturing and service sector activity in January were better than expected.

Europe

MSCI EMU	-1.3%	DAX	-2.1%
FTSE 100	-0.8%	CAC 40	-2.6%

Although the prospect of a new US stimulus package gave some support to European markets, the pandemic and its effects continued to weigh heavily on sentiment as governments across the continent struggled to control infection rates despite strict lockdowns. Problems with vaccine supplies which threatened to slow the pace of vaccination dampened the mood even further.

Despite the general gloom, data suggested a degree of resilience in major Eurozone economies. The German economy expanded 0.1% in the fourth quarter of last year, and Spain's GDP posted a surprise 0.4% growth. While France's economy shrank 1.3% in the same period, the result was much better than had been expected with most economists forecasting a contraction of more than 4% for the quarter.

But with lockdowns currently in place across the region, governments are already scaling back their growth predictions for this year – German authorities have cut their forecast for 2021 to a 3% expansion from a prior estimate of 4.4%.

The situation was much the same in the UK, although its own vaccination programme appeared to be running more smoothly, and at a much faster pace, than in the rest of Europe. However, vaccine maker Astra Zeneca saw its share price tumble – which in turn dragged the performance of the benchmark FTSE 100 index down with it – at the end of the month amid a row between the EU and the UK over vaccine supplies from the company.

Meanwhile, with the UK now fully out of the EU and trade between the two operating under the recently-negotiated Brexit agreement, there are growing reports of problems for British firms and hauliers because of new trade barriers. They have complained of cripplingly long delays to get goods into the EU from the UK, as well as struggling with extra taxes, charges, and paperwork. Some have said they have decided to stop exporting to the EU entirely and others have said they have been advised by the UK government to set up businesses in the EU to avoid disruption. Companies say this would involve laying off workers in the UK and shifting investment to Europe.

Asia

MSCI Australia	0.0%	Shanghai Composite	0.3%
MSCI ASEAN	-1.8%	Nikkei 225	0.8%
KOSPI	3.6%	SENSEX	-3.1%

As in many other developed states, the end of the month saw equities in Japan weighed down by coronavirus worries. Wider global concerns over vaccine delays and infection rates troubled sentiment, especially as Japan has yet to begin rolling out its own vaccine programme. Profit-taking ahead of the reporting season also affected overall performance. Meanwhile, in economic news, Japan's exports climbed 2.0% in December y-o-y. It was a significant improvement on November's 4.0% decline. The International Monetary Fund (IMF) has forecast Japan's economy contracted 5.1% in 2020 but will grow 3.1% and 2.4% in 2021 and 2022, respectively.

China-US relations came sharply into investor focus in the month and worries over the delisting of Chinese companies in the US dragged on sentiment. At the start of the month, the New York Stock Exchange delisted three Chinese telecommunications companies following an executive order by President Donald Trump. A further nine Chinese firms were added to the outgoing President's investment blacklist soon after. But the inauguration of Joe Biden has given rise to cautious optimism that relations between Beijing and Washington will improve. And in what has been seen as an early litmus test for US-China relations going forward, towards the end of the month, the three Chinese telecoms firms appealed their delisting. A response is expected in February.

Meanwhile, local shares were given a lift by strong economic data. China's December exports grew at a better-than-expected 18.1% y-o-y, and were up 3.6% y-o-y for 2020 as a whole to a record level of USD 2.6 trillion. Analysts see the data as further evidence of China's relative economic health compared to other countries in Asia and much of the rest of the world. It also comes as official figures showed the economy expanded 2.3% in 2020, with fourth-quarter GDP growth of 6.5% y-o-y. December industrial production readings were also better-than-expected and retail sales were up 4.6% in the same month. However, the December Caixin manufacturing Purchasing Managers' Index (PMI) reading of 53 was below expectations.

Indian equities hit record highs in the first half of the month driven by vaccine optimism before registering sharp falls as January ended amid some disappointing local corporate results and profit-booking ahead of the budget in February. In economic news, the government has forecast a robust economic recovery of 11% for the 2021-22 fiscal year. Meanwhile, the central bank has proposed tighter, bank-like regulation of the so-called shadow lending sector as it looks to beef up control of NBFCs (non-banking financial companies). In a statement the central bank said it sees the growing size, complexity, and interconnectedness of many such entities as making them "systemically significant, posing potential threat to financial stability". Under the proposals, up to 30 of the largest banks out of the thousands of firms operating in the shadow-banking sector would be brought almost to regulatory parity with state-owned and other private commercial banks in the country. New regulations have been proposed for mid to smaller NBFCs, but they are likely to be less stringent.

Sentiment in South Korean financial markets was buoyed for much of the month by hopes of a massive stimulus package being passed in the US. Stock-specific news also boosted some individual counters: chip giant Samsung Electronics said its fourth quarter operating profit likely rose 26% on the back of rising chip and display panel sales during the pandemic. Shares of automaker Hyundai Motor Company also soared in the wake of news the firm was in talks with Apple on developing electric vehicles and batteries. Meanwhile, it was also reported that the country is set for its busiest year ever for new share sales amid robust retail demand. In economic news, South Korea's unemployment rate surged to an 11-year high in December, coming in at 4.6%. It was the worst reading for the indicator for more than a decade and was up from 4.1% in November. However, official figures showed the economy grew at a faster-than-expected pace in the fourth quarter, expanding 1.1% from the third quarter.

Stocks in Singapore largely moved to the beat of overseas developments in January with performance mirroring Wall Street to some extent. The first half of the month saw local shares track higher as investors picked up on optimism about the incoming Joe Biden administration in Washington, the prospect of a large US stimulus package, and vaccine roll-outs. But sentiment waned in the back end of January as it became clear that, amid continuingly high coronavirus infection rates and lockdowns, there was unlikely to be any swift end to the pandemic. In other news, it was reported that business investment into Singapore rose 13% in 2020 to its highest level in a decade. Investments in fixed assets such as facilities, machinery and other equipment stood at USD 17.2 billion in 2020. The country's non-oil domestic exports (NODX) increased 6.8% y-o-y in December. They were up 6.6% on the previous month.

Elsewhere, the Stock Exchange of Thailand said it planned to boost its market capitalisation this year by over USD 16 billion in 2021 through initial public offerings (IPOs) and secondary listings. In a statement it said it was looking to attract foreign listings from neighbouring countries and support fundraising for small businesses and start-ups. Meanwhile, a survey by the University of the Thai Chamber of Commerce suggested the country's economy could lose USD 10 billion in the first quarter of the year as the consumer confidence index dropped for the first time in three months, falling to 50.1 in December. This comes amid warnings that new coronavirus restrictions could dent any economic recovery in the country. During the month, the government approved USD 7 billion of cash handouts to boost consumption as authorities look to lessen the economic impact of the pandemic.

In the Philippines, global ratings agency Fitch Ratings affirmed the country's long-term foreign-currency issuer default rating at 'BBB' with a stable outlook, citing modest government debt levels, "robust" external buffers, and still-strong medium-term growth prospects. It has forecast the economy to recover this year with growth of 6.9%, followed by an 8.0% expansion in 2022.

Malaysian authorities announced plans for a further USD 3.7 billion of stimulus measures to support the economy as the country declared a state of emergency and imposed lockdowns amid rising coronavirus infections.

Latest data suggested that foreign investment in Indonesia is starting to pick up. Foreign direct investment (FDI) into Southeast Asia's largest economy rose 5.5% to USD 7.92 billion in the fourth quarter of 2020. This comes after a slowdown earlier in the year.

For 2020 as a whole FDI stood at USD 29.4 billion, down 2.4% from 2019. The drop was put down to companies pausing investment plans during the pandemic.

Australian shares took support from a broader global rally on hopes of further US stimulus and a relatively quick economic recovery as Covid vaccine programmes get underway. However, there were steep falls in the final week of January as disappointing local results and profit booking took the shine off an otherwise decent start to the year. The domestic economy continued its strong recovery from Covid lockdowns and companies exposed to higher consumer spending are doing particularly well. Results from retailers have been especially good while firms exposed to the construction, real estate, and some general economy sectors are also doing well. In economic news, latest data showed the local labour market continued to recover at the end of last year while consumer sentiment remains optimistic. The preliminary Markit composite Purchasing Managers' Index (PMI) reading for January dipped 0.6pts to 56.0, indicating growth remains strong, if slightly slower.

Latin America

MSCI Latin America	-6.7%	MSCI Chile	-6.5%
MSCI Brazil 25-50	-7.9%	MSCI Mexico	-4.2%
MSCI Colombia	-14.0%	MSCI Argentina	-12.1%

Market sentiment in Brazil was weighed down by a mix of investor concerns in January. Covid continued to ravage the country, denting optimism over the potential of vaccines to bring an end to the pandemic sooner rather than later. There was also uncertainty among investors about possible changes in monetary and fiscal policy later this year that may be unwelcome. Although the country's central bank held the benchmark Selic interest rate at an all-time low of 2%, expectations are growing that interest rates could rise within months as inflation remains high. According to official figures Brazil's annual inflation rate came in at 4.5% in December. This was well above the central bank's year-end target and the second month in a row the benchmark reading has been above 4%, having more than doubled from the record low of below 2% in May. Meanwhile, there are worries that more financial relief will be needed to deal with the ongoing pandemic, potentially endangering the government's ability to observe a mandatory spending cap intended to keep a limit on outgoings.

In Mexico, the prospect of a large US stimulus package being pushed through by the new administration under Joe Biden gave some support to sentiment over the month. Investors also see Biden as likely to be less aggressive on trade and immigration than his predecessor and that there will be some improvement in Mexico-US relations. But the country remained firmly in the grip of the coronavirus pandemic, and there was growing discontent over the government's handling of the Covid crisis. Economic news was also gloomy. Official figures showed Mexico's economy shed 277,820 formal jobs in December, the social security institute said on Tuesday, in the latest blow to the country's struggling labour market.

In Peru, a controversial pension reform bill designed to integrate the country's public and private pension fund systems was approved by a special committee of Congress. This came despite criticism of the reform from the pensions industry itself, as well as Peru's central bank, pension regulators, and the Finance Ministry. There are concerns that under the plans, private pensions would be effectively nationalised. It also comes not long after the approval of other populist bills that have harmed the pension fund industry, including allowing people to withdraw up to 25% of their retirement funds to help them cope with the pandemic. The bill will now be sent to Congress for a full vote.

Elsewhere, in Argentina, economists surveyed by the central bank are forecasting Argentina's economy to grow 5.5% in 2021. This would follow a contraction of about 10% in 2020.

Africa

MSCI FM Africa	1.3%	FTSE/JSE	1.1%
MSCI South Africa	2.7%	MSCI Egypt	7.8%
MSCI Kenya	0.9%	MSCI Nigeria	4.5%

In Kenya, banks warned they were likely to see a substantial fall in their full-year net profits for 2020 due to Covid-induced lockdowns which have hit borrowers' ability to repay loans. A number of lenders in the country have said they have been forced to significantly raise loan loss provisioning as individuals and firms have struggled financially during the pandemic. It was also reported that remittance inflows into Kenya jumped by nearly 11% in 2020 to USD 3.09 billion. The central bank said this was down to technological innovations making it easier for people to send money home. For example, Kenyan banks have made it easier for people to send cash to mobile money accounts and platforms.

There was some good economic news as the World Bank said it was expecting the Kenyan economy to register the strongest growth among its regional counterparts this year, bouncing back after a Covid-fuelled slump in 2020. In its latest Global Economic Prospects forecast the bank said it was projecting the Kenyan economy to grow 6.9% this year and 5.7% in 2022. This follows a 1% contraction for 2020. The forecast growth will be higher than other countries in the East African Community where Rwanda is forecast to expand by 5.7%, Tanzania 5.5%, Uganda 2.8% and Burundi 2% while South Sudan is projected to contract 3.4%.

Meanwhile, economic growth projections for Egypt have been revised upwards. During the month, the International Monetary Fund (IMF) announced it had raised its projections for Egypt's real GDP growth for FY2020/21 to 2.8%, up from a previous forecast of 2%. It said the country's economy was likely to grow around 1.5% in 2021. The group said it was expecting recovery in all sectors, although the tourism sector would take longer to bounce back. In other news, the board of directors of the Egyptian Iron and Steel Company (EISC) has decided to liquidate the company, which has been an industrial icon in Egypt since its founding almost 60 years ago, and divide it into two separate entities. The move, which will see one firm dealing with iron and steel operations and another mines and quarries, paves the way for private sector investments in the two companies in the future. The EISC board said the decision was taken after heavy losses built up at the firm over many years.

In South Africa, the effect of continuing coronavirus restrictions on local industries has been highlighted once again as companies in the alcohol industry, which has been hit hard by further bans on alcohol sales, demanded excise taxes be deferred to stop mass company closures and worker lay-offs. The government introduced a ban on alcohol sales in December for the second time in nine months after local coronavirus infections spiked. But it is not just alcohol producers that are struggling under the restriction. A report released during the month claimed South Africa's glass packaging industry could lose up to USD 98 million in sales under the latest ban. Glass bottle makers have already endured heavy losses during the two previous bans on alcohol sales. This comes as South African Breweries, part of Anheuser-Busch InBev, announced it had cancelled USD 165 million of investment planned in 2021 following the latest alcohol ban.

It is not just South Africa's alcohol industry that is suffering. Brewers in Nigeria are facing similar problems as consumer spending continues to fall due to the pandemic and subsequent recession. The country's brewery industry is one of the largest employers of production labour in Nigeria and contributes significantly to the nation's GDP. But as well as having to deal with a new VAT rate of 7.5% on alcohol introduced last year just before the pandemic, Covid restrictions have hurt the industry with bar closures, travel restrictions and the consequent impact on supply chains as well as falling consumer incomes, all affecting brewers. ■

*To get in touch speak to your Regional Sales Manager or email us at **newsletter@1cornhill.com***

Cornhill Sales Diary

Even though staying at home is the safest course of action during the current pandemic, Cornhill remains fully open for business. Your sales representatives are more than happy to provide assistance via calls or virtual meetings.

Covid 19