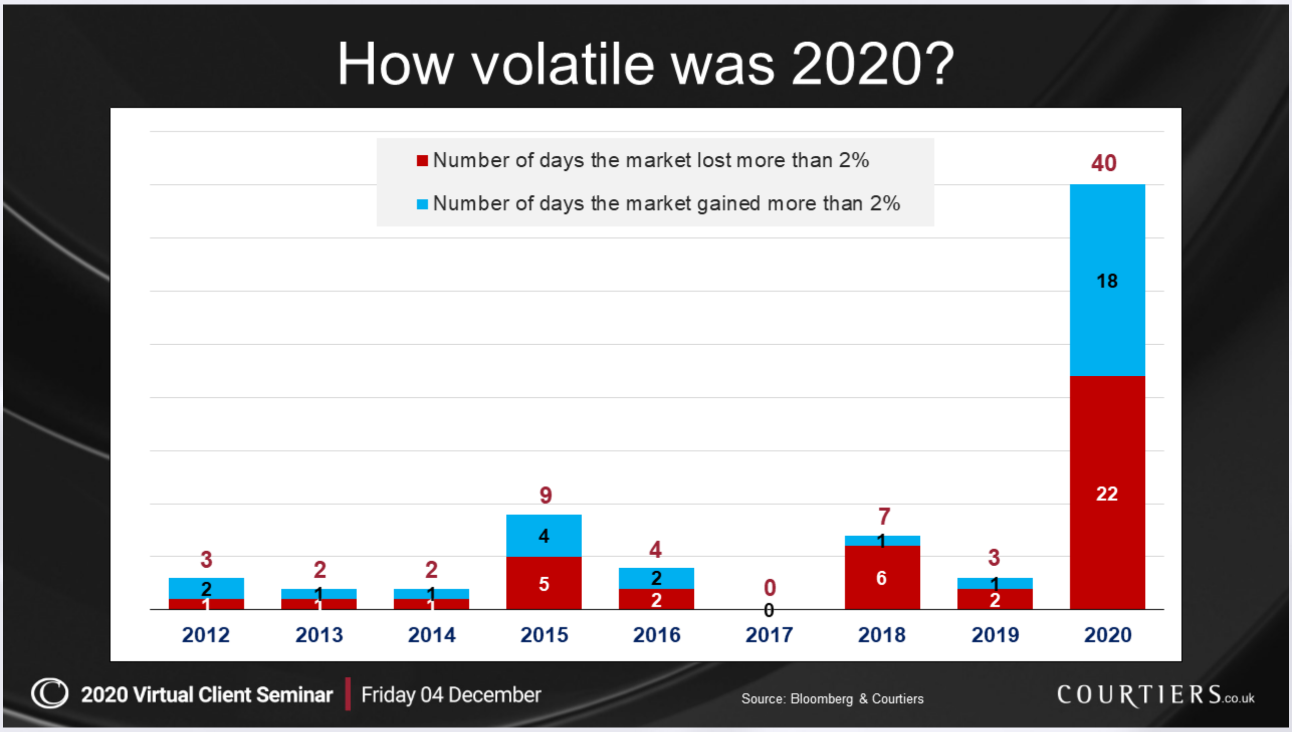
By James Timpson, Courtiers Analyst

2020 will live long in the memory for investors, as the coronavirus outbreak wrought havoc with financial markets. Volatility reached levels unseen since the global financial crisis.

To get a flavour for how volatile markets were this year, take a look at the following chart which shows the number of times the global equity market moved more than 2% in a day:

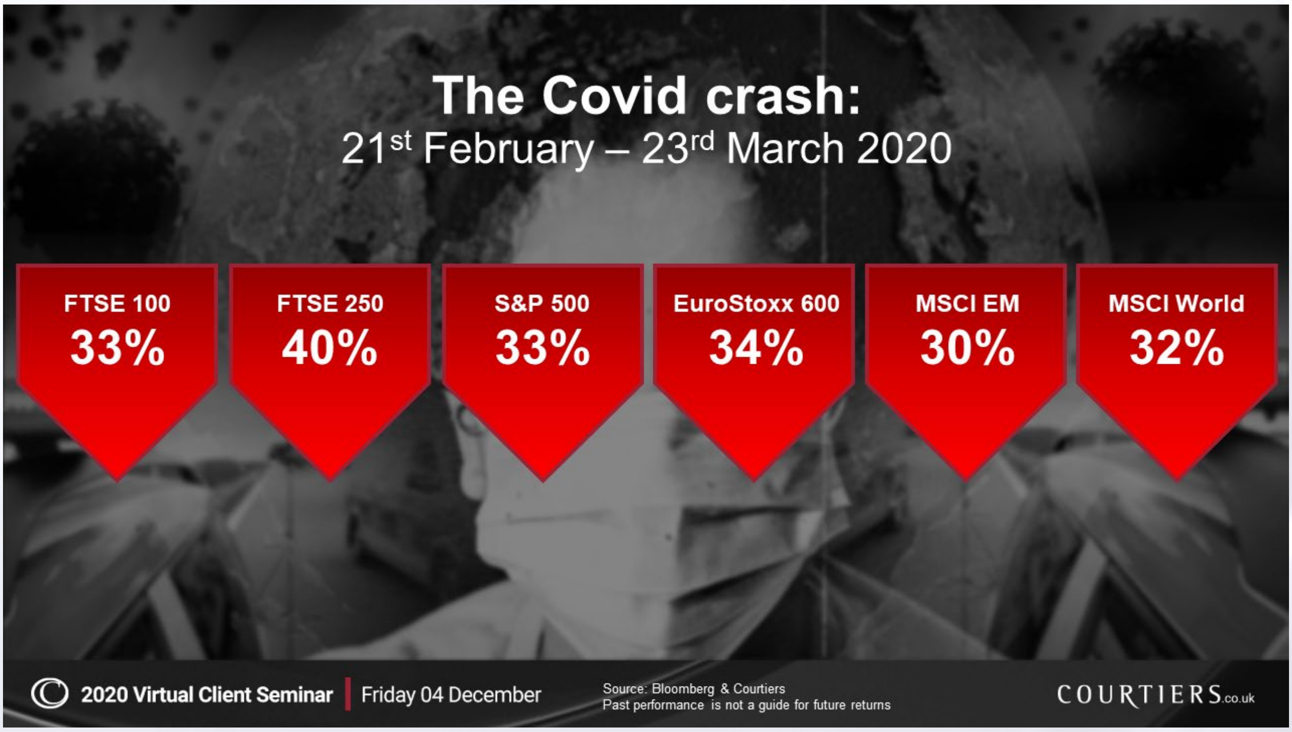


Throughout most of the last decade, volatility has been low. In 2017, there wasn't a single day when the market moved more than 2%. But so far this year, there have been 40 occasions where the global equity market has ended the day up or down more than 2% - that's more than the last eight years combined.

But back to the start of the year, when the news in the UK was still being dominated by Brexit. Britain officially left the EU on 31st January, and it was a fairly calm month for equity markets, as the MSCI World index slipped just -0.3%.

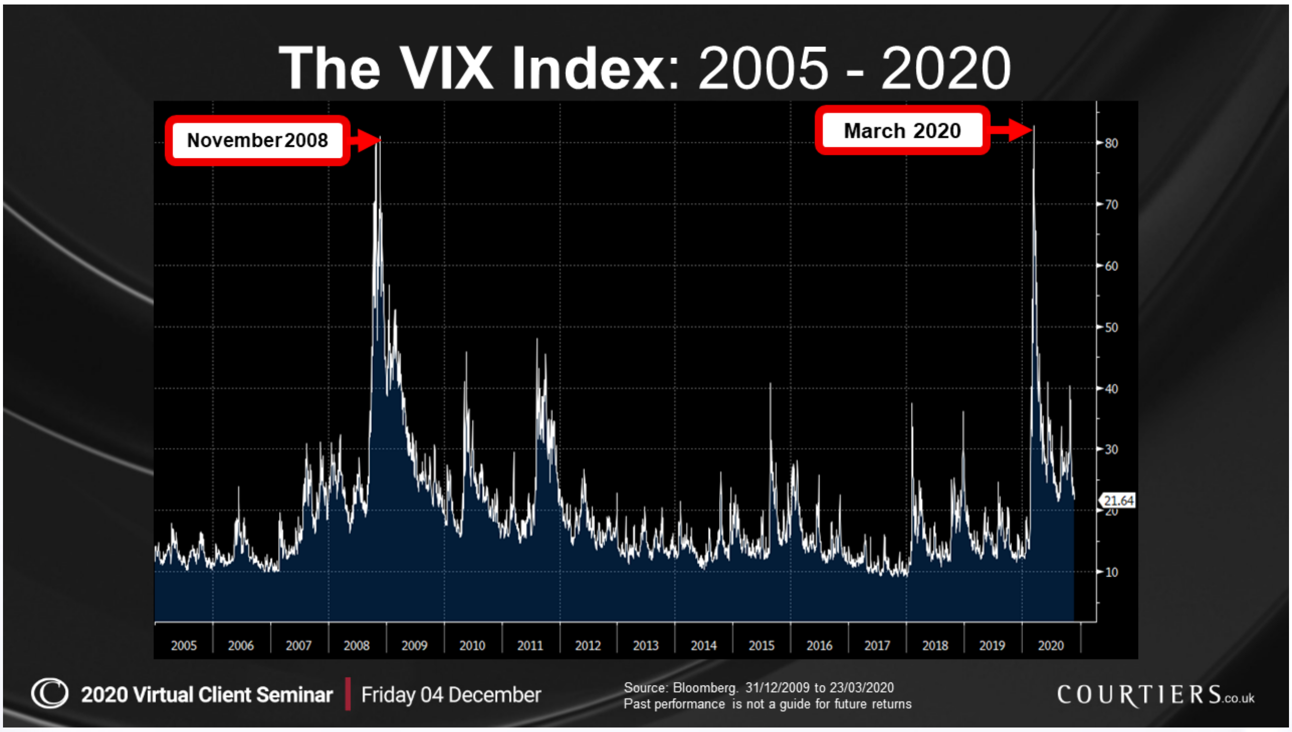
However, the outbreak of coronavirus that had been spreading throughout China was starting to be detected in other countries. From mid-January to late February, the total number of cases of the virus increased from less than a thousand to over 80,000, and when the numbers started to increase rapidly in Italy and the US, investors began to panic.

From 21st February to 23rd March, global equity markets suffered their worst crash since the global financial crisis of 2008.



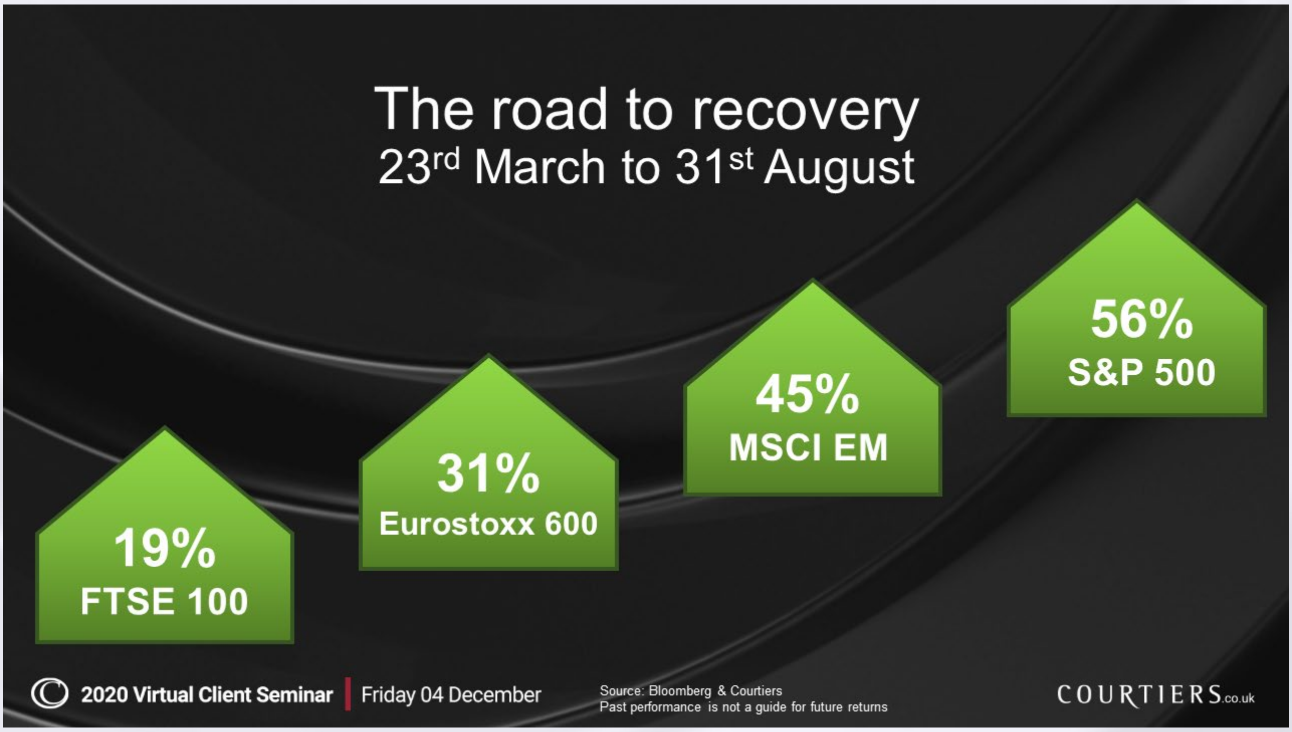
The largest companies in the UK, measured by the FTSE 100 index, slumped 33%, with medium companies measured by the FTSE 250 index shedding 40%. US and European markets declined 33% and 34% respectively, while emerging markets lost 30%. The overall equity market sank 32%, which means during that month publically traded companies across the globe lost nearly a third of their value.

The VIX index, which measures implied volatility in the US equity market, reached monstrously high levels. As seen in the below chart, in March this year the index peaked at an even higher level than those reached in 2008, largely due to the sheer speed at which this crash took place.



The 23rd of March was the bottom of the market, and if that date seems familiar, it's because that's also the date the UK entered its national lockdown. In other words, the entire crash happened before the lockdown even began, which is a good example of how markets often have a tendency to front run global crises.

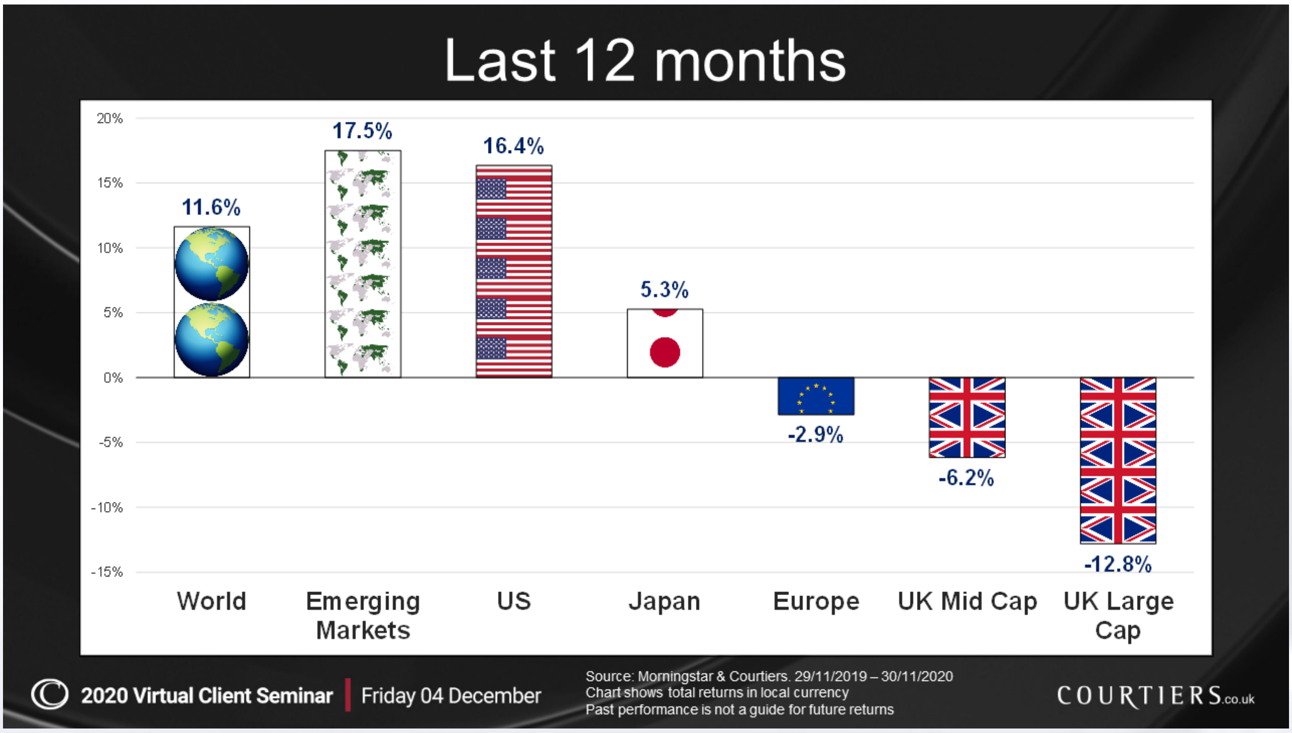
From 23rd March, markets embarked on their long road to recovery. And some markets picked up quicker than others. As the lockdowns continued and our reliance on technology reached newfound levels, it became evident that the stocks doing well out of the crisis were tech companies. Amazon, the largest company in the US market, surged +77% from the end of March to the end of August. Microsoft and Alphabet (aka Google) gained +33% and +40% respectively. With the US market being particularly tech-heavy, it was the S&P 500 index which managed to post the most significant recovery during the summer, even reaching new record highs in August.



While markets were recovering during the summer months, Covid restrictions were being lifted and economies were opening back up. However, this inevitably led to the virus spreading again. Meanwhile there was a great deal of uncertainty surrounding the upcoming US presidential election, particularly when Donald Trump himself tested positive for the virus. This led to markets wobbling again; in September the global equity market declined -2.9% and in October it slid a further -3.1%.

It was looking as though we could be on course for another major slump, until around a quarter to twelve on Monday 9th November when the news broke that Pfizer's vaccine had ben trialled with a 90% effectiveness rate. This gave financial markets a much-needed shot in the arm, and a wave of positivity ensued. On the day of the announcement, the FTSE 100 index jumped +4.7%, and overall during the month it rose +12.4% - its highest monthly gain since 1989.

The chart below shows how various markets have performed overall during the last twelve months.



Despite the vaccine-induced rally in the last few weeks, European equities measured by the Stoxx 600 index have still delivered negative returns for the year. In particular the UK, which has been among the hardest hit by the virus, has seen its largest stocks decline -12.8% during the year. However returns have been positive in other markets, including the US, which has been boosted by the growth of its tech companies, and emerging markets, helped by the very fast recovery in China from the initial wave of the virus.

Outside of equity markets, it has been a positive year for UK gilts (or government bonds) as interest rates reached record low levels. Gold, often referred to as a 'safe haven' asset, briefly surpassed the $2,000 per Troy ounce barrier in August and has gained +21% over the last twelve months. In the currency markets, the pound has managed to appreciate +3% versus the US dollar in the last year despite at one point falling to its lowest level against the dollar since 1985.

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