A PAUSE BEFORE THE CHRISTMAS RUSH

After weeks which saw the majority of world stock markets moving steadily higher with many achieving all-time highs, last week we saw a pause. The 3 major US indices all were slightly lower, the S&P500 dropping the most at 1%. The Euro STOXX 600 also fell1%, mirrored by similar declines in the indices of its underlying major countries: Germany, France and Italy. UK's FTSE lost 0.6% as a no Brexit deal looms. Prime Minister Johnson suggesting the "a solution will be more like the Australian relationship with the EU". That would imply a relationship based on the World Trade Organization rules plus a few 'special " arrangements.

Closer to home the number of Covid cases and hospitalizations continued to increase and both Canadian provinces and US States announced further stringent measures. New York City restaurants, which were late to the reopening party, were forced to re shutter. The push to get a $900 billion stimulus passed by the US Senate by year end faced new hurdles and added to the markets gloom. <u>All in all widespread selling, much of it focused on companies most affected by a re lockdown.</u>

However I believe the actual rollout of Pfizer's vaccine and signs that renewed containment measures are having a positive effect on the spread numbers, will result in a year end / New year rally. Having said that, with many company's share prices seeing significant percentage jumps over the last 4 weeks, the rally in the major indices may well be in the magnitude of just a few percent higher from present levels.

Potentially the most important news on the weekend was an article in the UK's financial times on China rethinking their Belt and road initiative. As recently as May 2017 President Xi called it the "*Project of the Century"* as he announced to a hall full of international delegates, that China promised to spend $1 trillion on infrastructure projects throughout the developing world. Important to note the vast majority of this funding was to be by the way of loans not gifts. Covid 19 has exacerbated the flaws in a strategy of making loans to already economically challenged and politically corrupt countries and now China finds itself mired in debt renegotiations with many of its loan recipients.

Evidence already points to a major strategy shift to focus more resources on China's domestic markets. Too long to go into full details, but to illustrate: <u>after lending $75 billion in 2016 alone</u>, the 2 major players: China Development bank and Export-Import Bank of China <u>only lent out $4 billion in 2019.</u> Two key questions come to mind: first what countries, if any, will step forward to make up this infrastructure spending shortfall, estimated to be $907 billion a year in Asia alone. Second it was China's global expansion, through the Belt and Road Initiative , that led in part to the current White House criticism and heightened trade tension between the 2 major global players. Wil this change lead to better trade relationships ahead or will the increased internal focus, mean less demand for non-Chinese manufactured goods in the next few years? We shall watch