Investors bullish on stocks, hoping for a brighter 2021

REUTERS, *New York*

US stocks closed 2020 on a strong note, and many investors are betting the party will continue after a tumultuous year that marked both the end of the longest bull market and the shortest-lived bear market ever.

Risks abound, including a resurgent coronavirus pandemic, concerns about the speed of rollout of vaccines and high-stakes Jan. 5 US Senate runoffs in Georgia for the balance of power in Congress. Still, many investors are looking past these threats.

"We are going to continue to see a push higher," said Commonwealth Financial Network's head of portfolio management, Peter Essele, who sees stocks in the early stages of a multi-year bull run.

The options market is pricing in more volatility in January than December, likely due to the Georgia elections. If Republicans win at least one Senate seat, they will maintain a slim majority.

If Democrats sweep the dual runoffs, the chamber would be split 50-50 and the tie-breaking vote would go to Vice President-elect Kamala Harris, giving President-elect Joe Biden's party full sway over Congress. That raises the possibility of tax-reform proposals that many investors fear would hurt stock prices.

Still, most investors are not looking for a sharp pullback next year. BofA Global Research's December fund manager survey was the most bullish.

The roll out of coronavirus vaccines has emboldened investors, along with the US Federal Reserve's expressed readiness to keep policy accommodative, strategists said.

Indeed, the US stock market's rally over the last two months may have taken even bulls by surprise. A late November poll found strategists expected the S&P 500 to end 2021 at 3,900, which would be another annual rise after the index rose about 16.3 per cent this year to 3,756.07.

REUTERS/FILE

A person wearing a face mask walks along Wall Street in New York City.

The year 2020 was a wild one for Wall Street, bookended by the end of the longest bull market in history with the battering of equities by the COVID-19 shutdowns, and a bungee-cord rebound on hopes for economic recovery that resulted in the shortest bear market on record.

In prior bull markets, when the S&P 500 takes out its previous bull market high, the index has experienced a median gain of 38 per cent over the span of 26 months before topping out, according to Bespoke Investment Group data.

Some investors fret the COVID-19 recovery may already be priced in and valuations may be stretched. The 12-month forward price-to-earnings ratio of the S&P 500 is currently about 22, well above its long-term average of 15. Still, investors see several parts of the market, including financials, leisure and hospitality stocks and energy with potential to rally.

"The market, overall, does not seem overbought," said Tim Ghriskey, chief investment strategist at Inverness Counsel.

Investors looking for a continued rally are optimistic of a rebound in corporate earnings.

"Earnings are going to be used as a confirmation of current pricing," Essele said.

S&P 500 company earnings are forecast to increase about 23 per cent in 2021 compared with 2020.

For much of this year increased market concentration has been a nagging worry for investors, with top five S&P 500 constituents generating 127 per cent of the index's return during the first nine months of the year, according to BlackRock's calculations.

Technology's weight in the S&P 500 currently stands at 28 per cent, up more than 10 percentage points from its historical average since 1990, according to Bespoke.

"What we saw in November and December is that the market already started broadening out ... beyond the tech stocks, the mega stocks," said John Praveen, portfolio manager at QMA, a PGIM company, pointing to a strong showing by value stocks, shares of small caps and non-US stocks.

The golden run by some high-flying growth names could continue, investors said.

"Do not count out those growth companies with dominant and emerging business models that can continue to meet or exceed lofty shareholder expectations," said Tony DeSpirito, chief investment officer of US fundamental active equity for BlackRock, in a note.

With vaccines being deployed investors are looking at "the light at the end of the tunnel," said Praveen, who expects this year's laggard stocks and sectors to join the rally in 2021.

"Think of it as your car firing on all cylinders... it's a much broader, healthier rally," Praveen said.

US imposes $30m penalty on Daimler for delayed truck recalls

REUTERS, *Washington*

Daimler AG's North American truck unit on Thursday agreed to a $30 million US civil penalty to resolve an investigation of delayed recalls, the second time since late 2019 the German automaker has agreed to settle a probe by US auto safety regulators.

The National Highway Traffic Safety Administration (NHTSA) said Daimler Trucks North America failed to recall vehicles in a timely fashion and comply with reporting requirements after the agency opened a probe in April 2018 of about 464,000 vehicles.

As part of the settlement, Daimler Trucks agreed to develop and implement an advanced data analytics program to enhance its ability to detect and to investigate potential safety defects as part of a two-year consent order that can be extended by NHTSA for one additional year.

Daimler Trucks must pay $10 million upfront and spend an additional $5 million on projects to enhance safety. The agreement includes a $15 million deferred penalty that can become payable if Daimler does not comply with the consent order.

Daimler Trucks said it is focused on "building safe, efficient and reliable commercial vehicles.... In this case, though there are no known accidents or injuries associated with any of the voluntary recalls.

"We appreciate the opportunity to summarily resolve this matter," it added.

Daimler Trucks agreed to meet with NHTSA on at least a monthly basis as part of the settlement.

"It's critical that manufacturers appropriately recognize the urgency of their safety recall responsibilities and provide timely and candid information to the agency about all safety issues," NHTSA Deputy Administrator James Owens said.

In December 2019, Daimler's Mercedes-Benz USA unit agreed to a $20 million civil penalty over its handling of US vehicle recalls after NHTSA said it failed to notify owners in a timely fashion in some recalls, did not submit all reports and did not launch at least two recalls in a timely fashion.

African free trade bloc opens for business, but challenges remain

REUTERS, *Johannesburg*

African countries began officially trading under a new continent-wide free trade area on Friday, after months of delays caused by the global coronavirus pandemic.

But experts view the New Year's Day launch as largely symbolic with full implementation of the deal expected to take years.

The African Continental Free Trade Area (AfCFTA) aims to bring together 1.3 billion people in a $3.4 trillion economic bloc that will be the largest free trade area since the establishment of the World Trade Organization.

Backers say it will boost trade among African neighbours while allowing the continent to develop its own value chains. The World Bank estimates it could lift tens of millions out of poverty by 2035.

"There is a new Africa emerging with a sense of urgency and purpose and an aspiration to become self-reliant," Ghana's President Nana Akufo-Addo said during an online launch ceremony.

REUTERS/FILE

Cranes and containers are seen at APM Terminals at the gateway port in Apapa, Lagos, Nigeria.

But obstacles - ranging from ubiquitous red tape and poor infrastructure to the entrenched protectionism of some of its members - must be overcome if the bloc is to reach its full potential.

Trade under the AfCFTA was meant to be launched on July 1 but was pushed back after COVID-19 made in-person negotiations impossible.

However, the pandemic also gave the process added impetus, said Wamkele Mene, Secretary-General of the AfCFTA Secretariat.

"COVID-19 has demonstrated that Africa is overly reliant on the export of primary commodities, overly reliant on global supply chains," he said. "When the global supply chains are disrupted, we know that Africa suffers."

Every African country except Eritrea has signed on to the AfCFTA framework agreement, and 34 have ratified it. But observers such as W. Gyude Moore - a former Liberian minister who is now a senior fellow at the Center for Global Development - say the real work begins now.

"I would be surprised if they can have everything set up within 24 months," he told Reuters. "For long-term success, I think we'll need to look at how long it took Europe. This is a multi-decade process."

Historic challenges including Africa's poor road and rail links, political unrest, excessive border bureaucracy and petty corruption will not disappear overnight.

And an annex to the deal outlining the rules of origin - an essential step for determining which products can be subject to tariffs and duties - has not been completed yet. Meanwhile, 41 of the zone's 54 member states have submitted tariff reduction schedules.

Members must phase out 90 per cent of tariff lines - over five years for more advanced economies or 10 years for less developed nations. Another 7 per cent considered sensitive will get more time, while 3 per cent will be allowed to be placed on an exclusion list.

Finalising those schedules and communicating them to businesses must be done quickly, said Ziad Hamoui of Borderless Alliance, a group that campaigns for easier cross-border trade.

But efforts to implement the deal will also likely face resistance from countries' domestic interest groups. Fears of losing out to more competitive neighbours initially made some countries, including West African giant Nigeria, sceptical of the pan-African project.

Still, proponents of the zone are confident that initial steps towards its implementation will already allow member states to quickly boost intra-African trade.

"Economic integration is not an event. It's a process," said Silver Ojakol, chief of staff at the AfCFTA Secretariat. "We must start somewhere."

Bitcoin rallies above $30,000 for first time

REUTERS

Digital currency Bitcoin extended its record-smashing rally on Saturday, beginning the year with a surge over $30,000 for the first time, with ever more traders and investors betting that it is on its way to becoming a mainstream payment method.

The price of the world's most popular cryptocurrency traded as high as $33,099 on Saturday, with almost all other markets closed over the first weekend in 2021. It was last up about 12 per cent at $32,883.

Bitcoin advanced more than 300 per cent in 2020, and with the latest leg higher has added more than 50 per cent since crossing $20,000 just two weeks ago.

The blockchain currency has only been around for a decade or so, and in 2020 it has seen demand grow from larger U.S. investors, attracted by its perceived inflation-hedging qualities and potential for quick gains, as well as expectations it would become a mainstream payments method.

Investors said limited supply of bitcoin - produced by so-called "mining" computers that validate blocks of transactions by competing to solve mathematical puzzles - has helped power upward moves over recent days. Some also saw it as a safe-haven play during the COVID-19 pandemic, akin to gold.

"It's very likely that the asset will eventually pass $100,000 per coin," Sergey Nazarov, cofounder of Chainlink, a global blockchain project, wrote in an email on Saturday. "People have been steadily losing faith in their government currencies for years, and the monetary policies resulting from the economic impact of the coronavirus have only accelerated this decline."

It trades on numerous exchanges, the largest of which is Coinbase, which is itself preparing to go public and become the first such platform to list on Wall Street.

Multiple competitor cryptocurrencies use similar blockchain, or electronic ledger, technology. Ethereum, the second biggest, gained 465 per cent in 2020 and was up almost 7 per cent on Saturday.

REUTERS/FILE

Representations of virtual currency Bitcoin are seen in this picture illustration.

Tencent games reinstated on Huawei app store

REUTERS, *Hong Kong/Beijing*

Tencent's online games were removed and then reinstated on Huawei's app store on Friday in a dispute over revenue sharing by the Chinese companies.

Huawei was insisting on a 50 per cent cut of Tencent's game sales on the app store and the Tencent games were removed because the companies had been unable to agree a deal, a Tencent source said.

Tencent sells some of the top-ranked online games worldwide while Huawei has a 41.4 per cent share of the China mobile phone market and 14.9 per cent of the global market, data from market researchers IDC and Canalys shows.

The games were reinstated on the app store after further negotiations, Tencent said, adding that "both sides will continue to work together to bring better experiences and services to consumers".

Huawei did not immediately respond to a request for comment.

A number of game developers have opposed Huawei's revenue demands, including Shanghai-based Mihoyo, which last year decided not to place its hit game "Genshin Impact" on Huawei's app store because of the sales commission structure.

Mahindra to focus on SUVs, electric after ending Ford JV talks

REUTERS, *New Delhi*

Mahindra & Mahindra Ltd will focus on developing its core portfolio of sport-utility vehicles (SUVs) and their electric version, a senior executive said on Friday after the company ended joint venture talks with Ford Motor Co.

Anish Shah, the deputy managing director, said Mahindra will focus mainly on large SUVs for its core India market in the short term and move to electric in the medium term, as it charts a new strategy for its automotive business.

"We are going back to our core," Shah, who will take over as managing director from April, told Reuters.

"We are going to look ahead at how we can accelerate our investment in electric and really start moving to the new age. We clearly hold the ambition to be a global brand and there again the electric journey is an important one," Shah said.

Mahindra's high-end electric vehicle Pininfarina Battista is a starting point, Shah said, adding that the automaker would look at developing more electric platforms in India to build SUVs for the local and export markets.

REUTERS/FILE

An employee works inside the Mahindra & Mahindra manufacturing plant in Chakan, India.

Mahindra and Ford late on Thursday called off their automotive joint venture due to the COVID-19 pandemic, which prompted them to reassess their capital allocation priorities.

The two companies had plans to jointly develop vehicles for manufacture in India for local sales and export to dozens of emerging markets under the Ford badge.

However, Mahindra was not convinced the venture would generate returns needed to justify the higher investment it would have to make in a post-pandemic world.

Shah told reporters Mahindra had initially planned to invest about 30 billion rupees ($410.68 million) in the venture, half of which would have been equity.

Now, Mahindra plans to invest the money in electric vehicles, he said, adding it is open to collaborating with Ford in the future, including in EVs.

The review is part of a broader restructuring at Mahindra under which the company is exiting several loss-making businesses, including its South Korean unit Ssangyong Motor, to focus on profits and cash flow.

Mahindra said on Friday it is close to agreeing a deal with a potential investor for its majority stake in Ssangyong, which has been placed in receivership. Its total investment in the SUV-maker is $264 million and the extent of the write-off would depend on what deal is agreed, Shah said.

The automaker last year also pulled the plug on its US electric scooter unit GenZe and aviation business GippsAero. Its other global subsidiaries include Peugeot Motorcycles.