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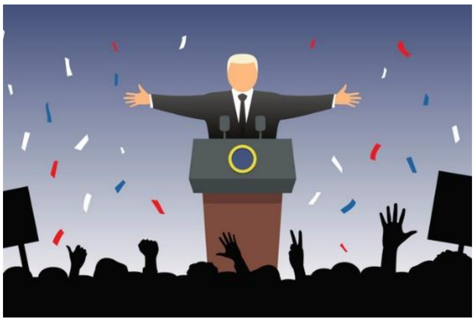
More Uncertainties in 2021: 3 Key Areas to Pay Attention to

The year 2020 has been an eventful year. From the Covid-19 pandemic that led to the global market crashes, to the US Presidential Election dramas and results, nothing could have prepared investors for the rollercoaster rides. Here are three things that we all need to pay attention to when investing for 2021.

New US President's Policies



The first major event for 2021 is the inauguration of the new US President Joe Biden on 20 January. As of now, Biden has not clearly delivered his local and foreign policies to the world. As soon as he swears in, Biden will have to tackle COVID-19 that has been spreading across the US. While the Democratic Party was able to secure the next stimulus package of US$900 billion for the Americans to help continue the fight, many investors are starting to look forward to Biden's proposed tax increases of nearly US$3.6 trillion from 2021 to 2030.

Although these increases only represent approximately 1.4% of US' annual GDP, many still worry that the increases will scuffle the US economic recovery and growth for the next 10 years. On the foreign policy side, Biden has promised to take the US back to the world stage starting with the World Health Organization and the Paris climate accord. But the massive and ongoing hacking of US government agencies, and the rapid deterioration of the US-Iran relation will put Biden in a very delicate position globally. Furthermore, Biden's attitude towards China will be very important. Whether he can work with China will be a key to the success of his presidency.

Fight against COVID-19

COVID-19 has turned the world upside down. Because of the tremendous speed and ease of its spread, global citizens are still adjusting to the new less-physical-more-online living style. In fact, many countries have to resort to record borrowing just to fight COVID-19, and some economists are starting to worry that some of these leveraged countries might dip back into recession in 2021. Even with the COVID-19 vaccines newly available, control of COVID-19 might take months if not years, and any resurgence will certainly create another wave of heightened anxiety in the future.

Relaxed Monetary Stance of Central Banks

Many central banks (especially those from developed countries) are left with no choice but continue to provide money to the mass market to help support the economies. These actions have caused interest rates to fall to a very low level and pushed many of the sovereign bonds into negatively yielding bonds, estimated at US$17 trillion globally in November 2020. The ultra-low interest rate environment has driven investors to chase on yields, either through investing in lower grading bonds or moving part of the investment into equities. But both of which have to rely on the continuous recovery of corporate earnings under COVID-19. The lack of economic recovery while the equity markets trade at high valuation is being themed as “The Great Dislocation”, which is expected to be a new normal at least for the first half of 2021.

Conclusion

As pension investors, we need to recognize the uncertainties that we are facing and understand that one day all of them will be behind us. By focusing on longer term and using dollar cost averaging to help diversify your investment risks, you will be able to achieve your long-term investment goals.