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Hymans Robertson Investment Services (HRIS)

Five years on from Covid, but what's next for markets?

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Key takeaways

- The five years since the pandemic have been eventful from an investor's perspective. Markets have had to contend with a pandemic, inflation, war and elections. Despite the period being volatile, it has been highly productive with strong returns for equity markets in particular.
- Looking forward, while the US is potentially more insulated from trade disruptions, it is far less clear that this will mean continued market outperformance – US economic superiority is arguably mostly in the price already. It may be time for other equity markets to shine. Bonds are likely to have a better five-year period than the one we just saw, with a higher-interest rate world offering more income and greater downside protection.
- Overall, it is important to not get caught up in, what may turn out to be, short-term market fads. Ensure your portfolio performance is not conditional on one single market outlook playing out.

It's now over five years since the UK first entered a Covid-19 lockdown. Since then the economic and investment landscape has experienced profound changes. Our latest article explores how investors have navigated these volatile times, examining key trends and events over the period and what that means for the future.

The past 5 years… investing through and beyond the pandemic

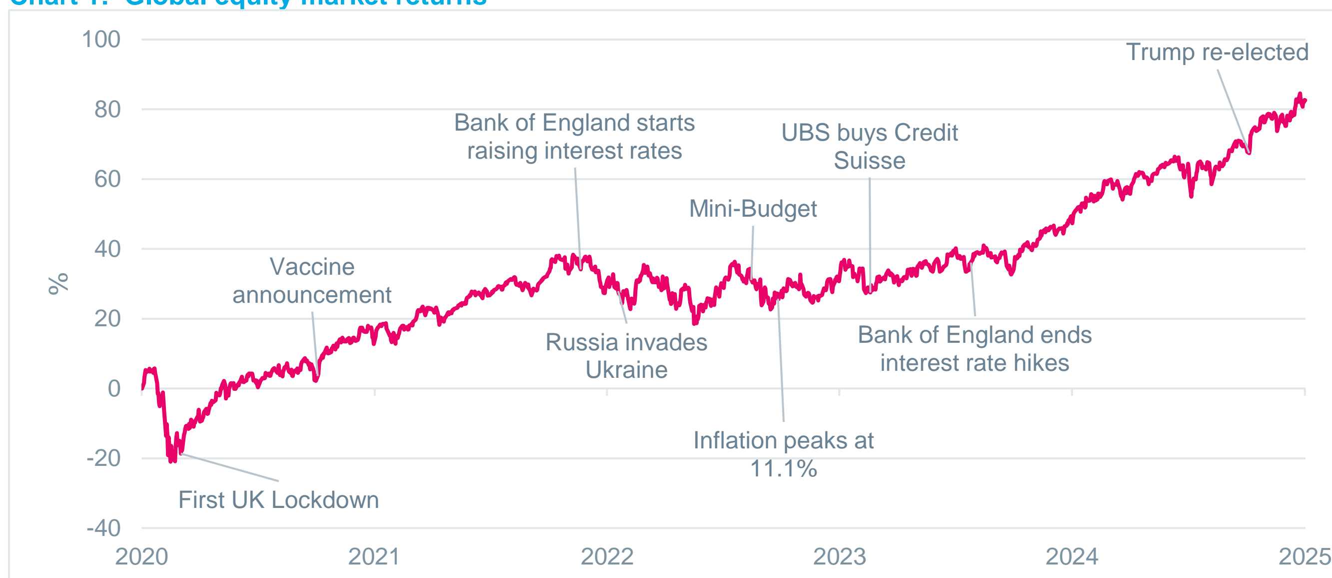
In the early months of 2020, the initial market gyrations from the near-closure of the world economy quickly snapped back as central banks and governments intervened with huge monetary and fiscal stimulus. Technology companies initially led the recovery, as lockdowns and remote work increased reliance on digital products and platforms. By the Summer of 2020, the global equity market had recovered all its losses from the initial lockdowns.

Beyond the first couple of months of the pandemic, the most painful period for investors was in 2022, when rapidly rising inflation led to a sharp increase in interest rates from central banks. The vast amounts of monetary and fiscal stimulus in 2020 started to fuel inflationary pressures, when pent-up demand was met with supply chain constraints following the world's emergence from the pandemic.

Other events (some significant on a human level) had more acute impacts on certain assets. Russia's invasion of Ukraine in 2022 caused Russian assets to crash. Later that year, the Bank of England had to intervene to stop gilt prices collapsing following Liz Truss' Mini-Budget. March 2023 saw the share prices of several smaller banks in the US come under pressure, as concerns over mounting bond losses grew. This eventually led to the takeover of Swiss banking giant Credit Suisse by rival UBS. The receding of inflationary pressures, and the end of interest rate hikes, coincided with the coming of age of Artificial Intelligence (AI) which drove huge returns for large US tech firms that came to be known as the Magnificent 7.

2024 was dubbed the year of the election, as over half the planet went to the polls. The election in the UK was a non-contest as Labour stormed to victory. The most impactful event of the year was the re-election of Donald Trump. The initial market reaction was positive, as investors expected massive tax cuts and a red-tape bonfire. More recently though, investors have been more focused on the downside that trade tariff policies might have on assets.

Chart 1: Global equity market returns



Source: Morningstar

Markets have been volatile, but performance has been strong

As expected, with so many dramatic events over the period, it has been a volatile few years. Equity volatility has been around 20% higher over the last five years compared to the five-year period before that. Despite this volatility, investors have been rewarded for sticking through it. Global equities generated returns of just under 83%, or 12.8% per year, over the past five years. More than the 12.0% p.a. returns in the five-year period prior to that and comfortably above expected equity returns for the period. Equity-based investors are likely to have done better than they would have expected over the past five years.

The same can't be said for bonds, however. There was an initial period of strong performance over the early pandemic months, when central banks aggressively cut interest rates. However, the surge in interest rates that followed the period of high inflation in 2021/22 was painful for bond investors. Over the five-year period, the bond market as a whole has been flat.

Despite lacklustre performance from bonds, the exceptional performance from equities means that a 60/40 investor would have still generated returns of almost 50% since the eve of the pandemic. This highlights an important reminder for investors. Although the world can feel chaotic and uncertain, this doesn't necessarily lead to poor asset class performance on a forward-looking basis. In fact, some of the strongest periods of performance tend to come in volatile times. Many of the best months for equity market performance came immediately after months with bad losses. In the latest five-year period, the best performing month was November 2020, the month that the first Covid vaccines were announced. In the preceding month the market fell 2.3%, the 9th worst over the whole period. A similar pattern emerges for the 2nd and 3rd best performing months, as the below table shows – all of which is a useful reminder of the importance of staying invested and not being overly influenced on the back of "bad news".

Table 1: Top performing months for equities

Top 3 months	Month's return	Preceding month's return
Nov 2020	8.9% (best)	-2.3% (9th worst)
Apr 2020	8.8% (2nd best)	-10.9% (worst)
Jul 2022	6.7% (3rd best)	-4.9% (4th worst)

Source: Morningstar

How has investing changed since 2020?

Beyond the events that have shaped markets, there have also been several industry and asset class trends that have developed over the past few years that investors should be paying attention to when considering their investments. One of the most important is the different role that bonds can now play in a portfolio. As the early pandemic months evolved, government bond yields fell to effectively 0%. This led to multi-asset investors living by the TINA, There is No Alternative (to equities), mantra. Now that bond yields are 4-5% p.a., they offer genuine income to investors, as well as additional downside protection if yields were to fall in times of market stress. On the other hand, concern around high inflation in 2021/22 has led to a new period of inflation uncertainty and volatility. This is a big shift in perspective for investors who were used to benign inflation conditions since the 2008 financial crisis.

For equity investors, valuations have become more stretched (i.e. look more expensive), especially in the US market. At the same time, the equity market has become more concentrated both in terms of region and stock, which means market indices are now driven more by a small number of stocks or sectors. Our investment approach tries to take a broader, more regionally diversified exposure to equities to try and overcome these challenges and improve greater portfolio diversification.

Table 2: Change in asset class metrics

Metric	Feb 2020	Feb 2025	What this means for HRIS portfolios
10y gilt yield	0.6%	4.5%	Bonds are now more attractively priced. Having been "low duration" which was the right place to be, we have gradually been increasing the "duration" of our bonds.
Equity earnings yield	5.0%	4.0%	It continues to support our strong preference to not follow the market-cap index and instead to take a more diversified regional approach to enhance investment outcomes.
Global equity index allocation to US	54%	64%	
Allocation to top 10 stocks in global equity market	13%	23%	

Source: Morningstar

What lies in store for the next five years?

As we look back at the last five years, it's also important to cast our eyes forward. How alike will the future be to the past for investors? Trump is sure to dominate the early period. US exceptionalism was the story of the past five years, both in economic and investment terms. It is still likely to outperform other economies, especially if the trade war escalates – America is a relatively closed economy and is therefore more insulated from trade disruptions. However, it is far less clear that this will mean continued market outperformance – the economic superiority is arguably mostly in the price already. It may be time for other equity markets, which on the face of it look cheaper, to shine. Bonds are likely to have a better five year period, at least in nominal terms, than the one we just saw. The transition from a low-interest rate environment to a high one was painful for bond holders, but a high-interest rate world offers more income and greater downside protection.

Overall, it is important to not get caught up in, what may turn out to be, short-term market fads. Ensure your portfolio performance is not conditional on one single market outlook playing out. If there's one take away from the past five years for everyone, it's that the world can change fast, and investors' portfolios need to be resilient to these changes.

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Risk warning

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