Wealth Management
Weekly Market Update

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Market Update

Major equity indices enjoyed a positive start to the new year. UK equities provided the best returns up +6.4% for the week. UK equities were supported by a steepening yield curve and rising oil prices, since the market is overweight to the Bank and Energy sectors. Globally, Energy was the best performing sector whilst Consumer Staples was the only sector to end the week down. Emerging Markets continued their strong end to the last year as a weakening outlook for the US Dollar improved sentiment for these markets, up +5.5% for the week in Sterling terms. US equities were the weakest performing in local currency, but were up +2.4% in Sterling terms after currency effects. Japanese equities provided the lowest returns to UK investors, up +2.2%. Yields rose across major sovereigns, with the UK 10Y rising 9bps to 0.29%, while the US 10Y rose 20bps to 1.12%. Gold was down -2.0% at $1,849 per Troy ounce and Oil rose +8.2% to $52 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +6.4%	▲ +2.4%	▲ +3.3%	▲ +3.1%	▲ +5.5%	▲ +2.2%	▼ -1.5%	▼ -0.8%

all returns in GBP to Friday close

Macro News

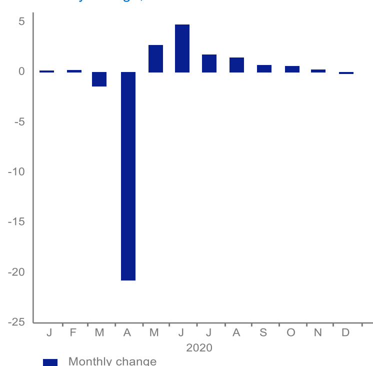
- The US economy lost 140,000 jobs in December, well below market expectations of a 71,000 rise. It is the first drop in employment since the job market started to recover in May 2020 from a record 20.787 million loss in April 2020. The largest employment declines were seen in the leisure and hospitality industry, which lost 498,000 jobs over the month.
- The trade deficit in the US widened to $68.1 billion in November 2020 from $63.1 billion in October, well above market expectations of $65.2 billion. It is the biggest trade gap since August of 2006 as exports rose +1.2% and imports +2.9%. Total exports reached $184.2 billion, boosted by sales of industrial supplies and materials, namely natural gas; foods, feeds, and beverages; travel and transport.

The Week Ahead

- China's export and import data for December 2020 will be released this Thursday. China's exports are forecast to increase +15% from a year earlier in December, a slowdown from November's +21.1% surge, as another surge of coronavirus cases in Europe and the US puts pressure on external demand for Chinese goods. Meanwhile, December import growth likely accelerated +5.7% year-on-year, following an increase of +4.5% the month before.

Week in Charts

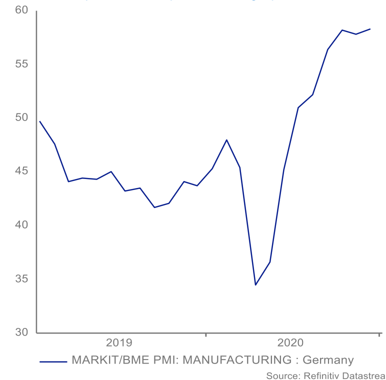
US nonfarm payrolls
Monthly change, millions



Source: Refinitiv Datastream

The US economy saw a surprise decline in payrolls in December as businesses shed 140,000 jobs last month due to stricter Covid-19 lockdown measures. The unemployment rate stayed steady at 6.7% in December.

Germany manufacturing PMI
Goods producers reported strong optimism



Source: Refinitiv Datastream

The manufacturing PMI reading pointed to the strongest growth in factory activity since February 2018, as it continued to recover from the shutdowns induced by the coronavirus pandemic earlier in 2020. Production continued to rise, albeit at a slightly reduced rate, while goods producers reported strong optimism towards the year-ahead outlook.

View From the Desk

With a view to last week's political events in the US, it might appear be oxymoronic that equities and bonds remain unperturbed at all-time highs. However, we need to keep in mind that from a market perspective the main political event last week was the Democrats winning control of the Senate and potentially unlocking more stimulus.

There are three factors which contribute to the market's buoyance and ambivalence to developments in the political world:

a) Unprecedented monetary support for risk assets, which for the first time in a decade is coupled with serious fiscal support.

b) A unified government in the US apparently geared more towards more fiscal support (markets are pricing in an extra $900bn stimulus package in the next couple of months) and less towards regulation and higher taxes, at least in the current economic environment. It's back to "bad news is good news".

c) A positive Covid-19 narrative, as vaccination is on the way in many of the major suffering economies.

Investors could potentially be scolded for being short-termist and oblivious to building political risks, which could only result in more political uncertainty in the future. Or they can be credited for sanguinely looking beyond the Twitter-augmented political reality and more into the fundamentals of what is moving markets. We would tend toward the latter camp, although we acknowledge that one can stretch democratic norms only so much before the social contract between business, state and consumers begins to collapse, fundamentally altering the way business is conducted and hurting margins and efficiencies.

For much of the market right now, inflation is the foremost concern. Some moderate inflation is good given the size of the global debt pile and for those that wish to see proper yield curves. Ultimately, though, it's bad for the stimulus system that has been supporting risk assets for over a decade and the host of small companies that are overburdened with debt. Inflating the debt when we rely so much on stimulus is, in other words, dangerous. Investors, rather, are hoping for debt cancellation or elongation for over a generation, a decision which would endanger the independence of central banks and their asset base. This is why one can't entirely dismiss politics. That course of action is almost purely political and will require a level of global coordination the likes of which we haven't seen since the Global Financial Crisis, and certainly not in recent years.

We think that if the ostensible return of multilateralism brings with it a serious discussion about debt amongst central banks and state Treasuries (Janet Yellen's presence in the Treasury is good news in that respect), then markets may have a right to be optimistic over the long term as well.

David Baker, CIO

Important information

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