# Wealth Management
# Weekly Market Update

Blog - LinkedIn - Twitter
Publications - Web
Contact Us

Published 25 January 2021

## Market Update

With the exceptions of the UK and Japan, equity markets were positive last week. Technology stocks performed particularly well in the US where Netflix was boosted by a larger than expected subscriber gain during the pandemic. US equities, up +1.4%, were supported by political tailwinds, with substantial stimulus expected under the new Biden administration. UK equities fell -0.6% due partly to Sterling strength, as a large portion of the index's earnings are overseas, and Oil weakness. Globally, Telecoms and IT led whilst Financials and Energy lagged. Emerging Market equities continued their strong start to the year up +2.0% to a +7.7% rise year-to-date. The US 10Y was largely unchanged, the yield up 0.2bps to 1.086%. The UK 10Y rose +2.0bps to 0.31% on positive vaccine news and improved sentiment about the economic outlook in UK PMI data. Gold rose +0.9% on the week whilst Oil fell -0.7% to US $52.7.

| UK Stocks | US Stocks | EU Stocks | Global Stocks | EM Stocks | Japan Stocks | Gilts | GBP/USD |
|---|---|---|---|---|---|---|---|
| ▼ -0.6% | ▲ +1.4% | ▲ +0.5% | ▲ +1.0% | ▲ +2.0% | ▼ -0.5% | ▼ -0.3% | ▲ +0.7% |

*all returns in GBP to Friday close*

## Macro News

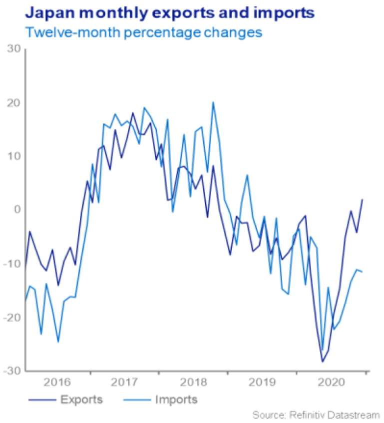
- China's GDP expanded 6.5% in the fourth quarter of 2020, beating forecasts and making the country one of the few in the world to register positive growth for the year. Year-on-year (YoY), GDP growth for the final quarter beat expectations, with the Chinese economy expanding 2.3% over the course of the full year as industrial production continued to drive the country's recovery.
- The inflation rate in the UK edged up to 0.6% in December 2020 from 0.3% in November and slightly above market forecasts of 0.5%, as some coronavirus restrictions were eased. The biggest upward contribution came from transport, clothing and footwear, recreation and culture and alcohol and tobacco. In contrast, the main downward pressure came from food and non-alcoholic beverages and restaurants and hotels.

## The Week Ahead

- The US Fed Interest rate decision will be released this Wednesday. Consensus does not expect any shift in policy stance as the Federal Reserve reiterated it was committed to using its full range of tools to support the US economy, as the uncertainty surrounding the economic outlook remained elevated, minutes of the December 15-16 policy meeting showed.

## Week in Charts


China's economy officially grew by +2.3% in 2020, largely in-line with forecasts and underscoring the country's remarkable recovery from prior-year coronavirus lockdowns. Fourth-quarter real GDP growth accelerated to +6.5%, making China the only major economy to regain its pre-virus trend.




Japan's exports was up 2.0% in December Y-o-Y and marked the first positive reading since November 2018. Import data was weak, declining -11.6% versus forecasts for a -13.9% fall-off due to a reduction in crude oil, coal, and aircraft products.

## View From the Desk

Even as the pandemic has entered one of its deadliest stages in key western economies, forcing PM Johnson to warn of a prolonged lockdown until the Summer, markets continued to sail through unencumbered. Last week the US equities hit fresh highs, on the back of further $1.9tn stimulus hopes in the US. The incoming US administration is pushing for the stimulus bill to pass before a second impeachment trial begins in the Senate, highlighting that their priorities are economic and not political. From a shorter-term perspective, it is clear that markets are content that the current, plus projected, levels of stimulus are enough to counter the worst economic repercussions of the pandemic.

However, the question looms from a longer-term perspective: is that much optimism justified? After all, it is barely a year ago when lockdowns were causing one of the largest and quickest market crashes in recent recorded history.

On the one hand, global heads of state have pulled out all the stops to make sure their economies stay afloat. Janet Yellen's presence in the US Treasury is taken as a clear sign of more US fiscal expansionism. Mr. Haldane, the BoE's Chief Economist, was optimistic about seeing a meaningful economic recovery into the second quarter of this year, enabling the government to retract furlough stimulus.

On the other, problems are piling up. Vaccine shortages are beginning to appear, and countries, still without some sort of global coordination, could get a lot more competitive in a bid to ensure that at least the internal part of their economies opens up, even at the expense of their most important trading partners. A second more aggressive string of the virus, B117, threatens a reality where infections outpace vaccination capacity, further pressing national healthcare systems for key economies and delaying a return to economic normality into next year. In the US, the Democratic hold on the Senate is extremely weak, suggesting that large stimulus bills could take some time before they are approved, if approved at all. Meanwhile, stimulus is characterised not only by size but by waste, as western economies are unfamiliar with this sort of massive state intervention. In the UK alone more than half the £46bn of corporate aid could be lost to fraud according to experts. In the US, the debate is raging as to whether wealthier Americans need any stimulus at all. And of course, monetary and fiscal expansion are coming at the expense of more debt and interest payments in the coming decade.

Markets, who have long been waiting for fiscal policy to supplement monetary efforts to keep the economy going, have a known Pavlovian reaction to this sort of "whatever it takes" mode adopted by governments and central banks alike. However, we should not forget that the whole point of Pavlov's famous experiment was to elicit a positive response on the mere suggestion rather than the actual presence of food. The dogs could starve but still be happy at the sound of the bell.

Is it possible that markets have become so psychologically fixated on hopes of perpetual stimulus that they would completely disregard not only conditions in the real economy but also the efficacy and the eventual end of that stimulus as well? As long-term investors, we are forced at the very least to ask the question. We remain overweight on risk assets, assured that it is government intervention and not run-of-the-mill investor irrational exuberance that is driving stock and bond markets. But we also remain extremely vigilant against signs of any long-term impact from the pandemic on corporate earnings or economic growth, which would have repercussions on our holdings and asset allocation.

***David Baker, CIO***



mazars