Wealth Management
Weekly Market Update

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Market Update

Global equity markets were down last week amid delayed growth recovery expectations. US equities fell -3.5% in Sterling terms, with volume skyrocketing mid-week to a record high of 23 billion share transactions as market attention centred on retail investors purchasing highly shorted stocks. UK equities fell -4.3% due, in part, to Energy underperforming other sectors. European equities fell -3.5% amid fear of a slowdown due to the pandemic, and delays in the distributions of vaccines. Emerging Market equities fared worst, down -4.7%, bucking a trend of strong performance since the start of the year. Globally, all sectors were down with the Energy sector performing the worst. Sterling strengthened up +0.2% and +0.4% against the US Dollar and Euro respectively. The US 10Y was down 2bps to 1.07%, while the UK 10Y rose 1.9bps to 0.33%. Gold fell -0.6% on the week whilst Oil fell -0.3%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -4.3%	▼ -3.5%	▼ -3.5%	▼ -3.6%	▼ -4.7%	▼ -3.6%	▶ 0.0%	▲ +0.2%

all returns in GBP to Friday close

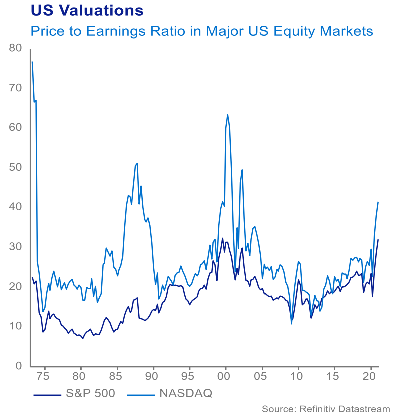
Macro News

- Labour market data for January showed that the UK unemployment rate rose, although weekly data shows the rate of job losses has slowed since its peak. Despite increased lockdowns beginning in September to November, total hours worked rose from low levels seen in the previous quarter. The data also showed total pay growing at a faster rate than inflation, though there is great variance by industry sector.
- Euro area economic sentiment fell slightly in January driven by a weaker retail outlook, and to a lesser extent services in general. Industry confidence improved slightly for the seventh consecutive month, but consumer confidence fell both in relation to the current and future situation. In general sentiment fell in the more developed European nations such as France and Germany, whilst the peripherals, such as Spain and Italy, showed marginal improvements in economic sentiment.

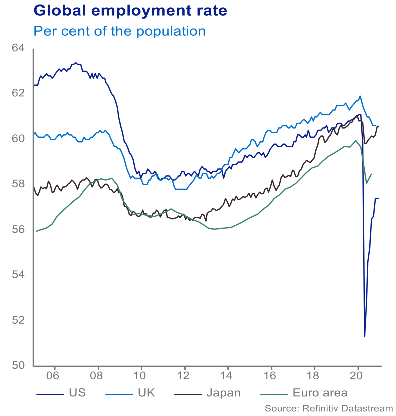
The Week Ahead

- The Bank of England Monetary Policy Committee (MPC) will convene on Thursday 4 February. The MPC is not expected to announce further Quantitative Easing or an interest rate cut despite anticipation of a cut in the forecast for UK growth. Meanwhile the House of Lords is beginning an inquiry into the Bank of England's operational independence, accountability, and transparency in the context of Quantitative Easing.

Week in Charts



Valuations in the US appear expensive relative to historical levels. This has been driven in part by the demand for investments less exposed to Covid-19 restrictions such as in Technology, where the US markets are overweight.



Global employment rates fell most sharply in the US during the pandemic, in large part due to the massive fiscal support to businesses in the UK and EU for firms to keep workers on furlough. Employment rates marginally ticked downward across major developed nations in the final months of the year.

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 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 co-ordination, could get a lot more competitive in a bid to ensure that at least the internal part of their economies open 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 are outpacing 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 decades.

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 could 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

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