Wealth Management
Weekly Market Update

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Market Update

Global equities rebounded from their sharp sell-off last week, rising +4.0% in Sterling terms. US equities were some of the best performing, rising +4.5% and more than recovering the previous week's losses in spite of weaker than anticipated labour market data. UK equities rose +1.3%, the worst performing major region. Energy particularly struggled, in spite of rising oil prices, as UK energy giants BP posted its first annual loss in a decade, while Royal Dutch Shell profits fell 71%. European equities rose +2.8%. Emerging Market equities fared best, up +4.8%, reverting back to their trend of equity leadership in 2021. Globally, all sectors were positive with the Technology sector the strongest. Sterling rose +0.2% and +1.0% against the US Dollar and Euro respectively, continuing its strengthening trend this year. The US 10Y yield rose 9.8bps to 1.16%, while the UK 10Y rose 15.5bps to 0.38%. Gold fell -2.0% on the week, while Oil rose +8.7%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.3%	▲ +4.5%	▲ +2.8%	▲ +4.0%	▲ +4.8%	▲ +3.7%	▼ -2.2%	▲ +0.5%

all returns in GBP to Friday close

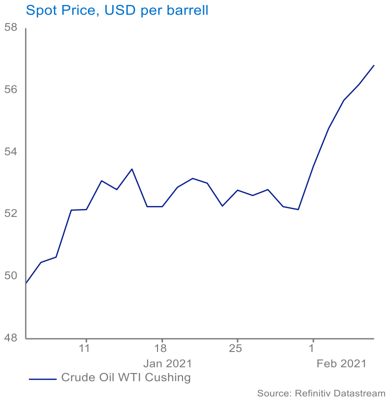
Macro News

- The Bank of England Monetary Policy Committee voted unanimously to keep current policy unchanged, though the key point was guidance regarding negative interest rates. The Bank warned financial firms to prepare for negative rates in six months. The central forecast is that negative rates will not be necessary and growth forecasts were revised upwards.
- The US labour market showed weakness in January, with risks to both the upside and the downside in the near-term. Nonfarm payrolls rose by 49k, narrowly missing expectations. Losses spread from just Leisure & Hospitality in the previous report, to other sectors including Manufacturing. However, with large fiscal stimulus expected to be passed soon, and with infection levels in the US dropping, the fiscal and health environment outlooks provide upside potential for the economy.

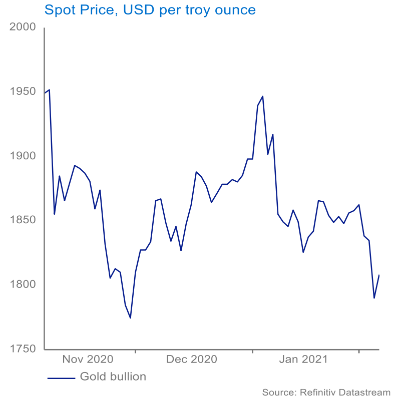
The Week Ahead

- UK GDP data for Q4 is released this Friday. The economy is expected to grow, although only marginally and it is possible data could show a slight fall, raising the possibility the UK could enter a double-dip recession. Higher frequency data series point to the effects of this third lockdown having a more muted impact on the economy than the first, which should help ensure GDP remains marginally positive.

Week in Charts



WTI Crude Oil has been rising since the start of the year. This has been driven in part by the expectations of a future economic recovery as more people get vaccinated globally, a large crude oil inventory decrease in the US and continuing OPEC+ production restraint.



Gold has been trending downwards since the start of the year, while exhibiting volatility. This is due to the optimism of an improved pace of the rollout of vaccinations globally combined with the strengthening of the US Dollar, which has picked up bullish momentum amid positive macroeconomic data.

View From the Desk

Last week saw US stocks breaking new highs again, as Wall Street easily brushed off the collapse of the "Great 2021 Reddit Rebellion" and focused on the likely $1.9tn US stimulus package. For all the publicity around Gamestop and other "short-squeezed" stocks, it should not come as a surprise that, in a market almost completely driven by monetary and fiscal expansion, the collapse in the price of a few smaller cap stocks had zero contagion effects.

However, expanded stimulus is but one side of the coin, with the other being the course of the Covid-19 pandemic. While the imagery of a "light at the end of the tunnel" might invoke thoughts of trains - which run on a fixed trajectory - the truth is that the road out of the pandemic is rife with twists and turns. 2020 might have been the year of "surprise" and "caution" but 2021 is the year of the actual "fight". That humankind will eventually beat the pandemic is more or less the highly likely outcome, based on all historic evidence. What is less predetermined, however, is how long the battle will take and what sort of "new normal" will emerge after it. Certainly the more the war rages, the more permanent the scars.

The optimism-pessimism scale is oscillating fast. On the one hand, since the beginning of the year we have seen breakthroughs in medicines to effectively treat the infection. On the other, some early studies have suggested that certain vaccines might be less effective against some mutations. Meanwhile, the more the virus is running rampant and grossly underreported in many emerging economies, the higher the probability of developing strains that are resistant to vaccines we have already developed.

The main risk for markets is a setback in treatment and prevention efficiencies which would prolong lockdowns and curb international travel for key global economies. We believe that there's ample room for more enhanced international coordination and strategic planning. Evidence of that happening could constitute a significant catalyst for markets to cheer, as economies and corporate earnings would be given the chance to catch up to present valuations within the year. We also monitor stimulus remaining well ahead of the worst aspects of the economic downturn. The expanded $1.9tn package in the US is certainly welcome news. The question is whether other nations, who don't have the benefits of borrowing in the global reserve currency, will be able to follow suit. Or, whether record-debt levels will induce policy makers to withdraw some of the pandemic-related economic safety nets before the defeat of the virus is assured.

David Baker, CIO

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