Wealth Management
Weekly Market Update

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Market Update

Global equities continued last week's gains, rising +0.7% in Sterling terms. UK equities, amongst the top performing major markets, rose by +1.6%. They were supported by rising oil prices and positive returns from energy companies, as the domestic market is overweight to the Energy sector. European equities, amid high volatility, were up +0.8%, due to improved coronavirus infection rates and hopes of a large U.S. economic stimulus. US equities rose +0.4%, the worst performing major region. Globally, Energy was the best performing sector whilst Utilities and Cons. Discretionary were the only sectors to finish the week down. Emerging Markets maintained their strong performance since the start of the year, posting gains of +1.5%. Sterling rose +0.8% and +0.3% against the US Dollar and Euro respectively, continuing its strengthening trend this year. The US 10Y yield rose 4.5bps to 1.2% and the UK 10Y rose 3.5bps to 0.52%. Gold fell -2.0% on the week, while Oil rose +3.7%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.6%	▲ +0.4%	▲ +0.8%	▲ +0.7%	▲ +1.5%	▲ +1.7%	▼ -0.3%	▲ +0.8%

all returns in GBP to Friday close

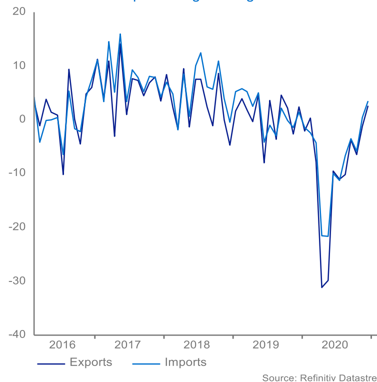
Macro News

- The European Commission revised its GDP growth expectations for 2021 downwards but no anticipates a stronger (than initially estimated) rise in 2022. After contracting by an estimated 6.3% and 6.8% in 2020 (in the EU and the Euro area, respectively), growth is forecast to rebound to 3.7% and 3.8% in 2021. In 2022, the annual GDP is expected to increase by 3.9% and 3.8% in the EU and Euro area respectively.
- UK economic growth beat expectations in the fourth quarter of 2020 but the economy remained smaller than it was prior to the coronavirus pandemic. Output during the fourth quarter increased by +1% relative to the previous three months, growing +0.5% higher than the expectations. However, in 2020 the UK economy shrank by -9.9%, a drop approximately twice as large as during the financial crisis.

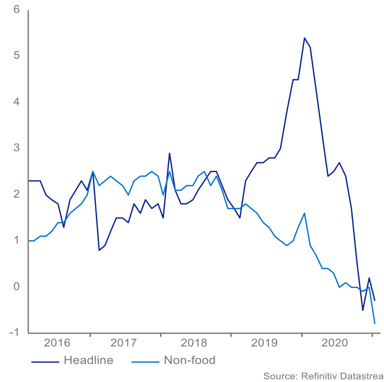
The Week Ahead

- UK inflation for January will be released this Wednesday. The December 2020 inflation rate stood at 0.8%, 0.2% higher than the previous month year-on-year and 0.1% above forecasts. Consensus expects the rate to decrease to 0.5% for this month.

Week in Charts



German exports in December, were up 2.7% while imports rose by 3.5% on the same month a year earlier. The majority of German goods were exported to the US and China, whereas most imports came from China and the Netherlands respectively.



Headline CPI inflation during January in China went back into negative territory, slipping by 0.3% relative to the same month a year earlier despite rising by 1.0% from December 2020. Prices remained weak, in part, due to suppressed demand for services such as transportation, hotels and entertainment.

View From the Desk

After another week with global equities near all-time highs, investors' attentions are slowly shifting towards the bond market. The US 2Y-10Y yield curve is near a 4-year high, as global inflation expectations are picking up. Unlike March, when bond yields spiked as a result of the panic around Covid-19 and delayed action by the Fed, this time around the move has been more gradual and founded on solid reasons: the return of inflation expectations. In the US, five-year inflation expectations are near their highest levels since the 2008 Global Financial Crisis, with the UK and Europe following suite. Despite current inflation data, which still shows very benign price pressures, investors are expecting, for the first time in 13 years, that prices for goods will materially go up in 2021. The reason is simple: after a very long time, price pressures come from both the demand and supply side.

1) Demand side: Covid-19- related fiscal stimulus was not only unprecedented, but is also expected to be withdrawn only after major economies have shown definitive signs of improvement. In other words, Treasury departments would rather err on the side of inflation rather than stifle growth. Central banks have concurred that growth is the primary concern and are willing to live with somewhat higher inflation for some time.

2) Supply side: The pandemic has thrown the global economy off-balance, causing strong supply chain pressures. These are exacerbated by the plans by many companies to re-stock, as they are afraid that these pressures may persist throughout the year. Purchase Manager Indices, (PMIs), a credible forward-looking indicator, suggest record-acceleration in input costs. The surveys also highlight the rising costs for raw material, with some analysts saying that we could see the beginning of another 15-year commodity super-cycle.

Inflation is an oddity that may well dominate discussion for this year. The base case scenario, one espoused by central banks, says that demand-side inflation is only temporary, the child of fiscal stimulus, bound to give way to more subdued demand as the economic damages of Covid-19 are uncovered and unemployment remains firmly higher than pre-crisis levels. Simply put, without reliable long-term growth, long-term inflation may be as absent as it has been in the past 20 years. When the pandemic is over and supply chains are repaired, supply-side inflation should also recede. An emerging scenario, however, suggests that the deflationary pressures of the past two decades, made possible by cheap manufacturing in emerging markets and a streamlined global value chain, might dissipate along with the multilateral approach to global trade that fostered them in the first place.

We are still in the camp that meaningful (over 2.5%-3%) inflation in 2021 is possible, even probable, but transitory in nature.

David Baker, CIO

Important information

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