Wealth Management
Weekly Market Update

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Market Update

Global equities suffered as steepening yield curves impacted valuations and helped drag most major equity markets negative for the week. The steepest rise in yield curves was found in the UK, where the valuation effect was offset by growing optimism about the outlook due to the vaccination programme. UK equities rose +0.7%, the best performing developed market equity index in Sterling terms. The next best performing region was Emerging Markets, which rose in local currency terms but fell -1.1% in Sterling terms. US equities fell -1.8% in Sterling terms despite better than anticipated earnings data. Inflation expectations picked up during the week and as a result sectors better suited to an inflationary environment outperformed, with Energy and Financials the two best performing sectors. The US 10Y yield rose 12.8bps to 1.3% and the UK 10Y rose 18.1bps to 0.7% as investors grow bullish on economic recovery and inflation. Gold fell -3.3% on the week, while Oil fell -1.6%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.7%	▼ -1.8%	▼ -1.3%	▼ -1.6%	▼ -1.1%	▼ -1.9%	▼ -1.8%	▲ +1.2%

all returns in GBP to Friday close

Macro News

- US initial jobless claims soared to 861,000, higher than the 773,000 figure that economists had predicted. This is a break after three consecutive weeks of declining numbers. The figure came as a surprise after positive indicators were recently published, including manufacturing data, retail sales and producer prices all showing strengthening economic activity.
- Latest flash PMI data for the Eurozone indicated that February marks the fourth consecutive month of shrinking business activity, with the rate of contraction being slower than the previous month. Business activity was driven downwards by a further deterioration in the service sector, as the Services PMI index reached a 3-month low at 44.7. Manufacturing growth offset the service sector contraction with the Manufacturing PMI reaching a 36-month high at 57.7.

The Week Ahead

- Prime Minister Boris Johnson will set out a plan for the UK to start easing lockdown restrictions from next month. With coronavirus infections steadily falling and an accelerating rollout of the vaccinations over the last two months the UK is expected to see schools reopening in March, hospitality to start opening in April.

Week in Charts

Sterling strongly appreciating

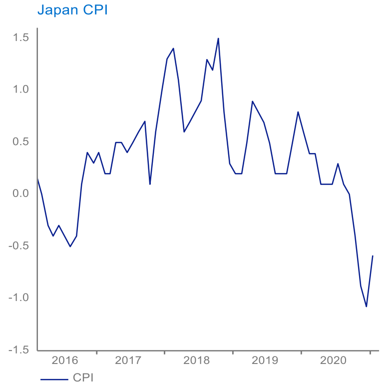
GBP against USD

Source: Refinitiv Datastream

Sterling has appreciated against the US Dollar to levels not seen since April 2018. The strengthening of the currency has been driven by expansionary US monetary policy, a rapid rollout of vaccinations relative to other countries and an easing of Brexit-related uncertainties.

Japan inflation remains at negative levels

Japan CPI



Source: Refinitiv Datastream

CPI inflation in Japan remained in negative territory despite better than expected GDP growth in Q4 and rising exports. Core inflation was down -0.6% on a year-on-year basis, well below the Bank of Japan's inflation target of 2%.

View From the Desk

The race for gradual reopening of the global economy is about to begin as the UK and the US are close to reaching significant milestones in Covid-19 vaccination rates. From that perspective, markets have every reason to feel positive, with stocks near all-time highs and equities experiencing record inflows. The US earnings season further boosted equity returns, with US large caps increasing their earnings by 3.4% in Q4 2020, against a 9% drop expected by markets, as companies managed to weather Congress' tardiness in handing out stimulus cheques. A further reason - or perhaps sign - of buoyancy is the capitulation in bond markets. The recent rise in yields and steepening of the yield curve are a confluence of economic optimism and rising inflation expectations.

Despite all the usual flags, however, we can't treat this as a run-of-the-mill bull market. For one, we are already in the bubble-building stage. We see circumstantial evidence of bubbles building, whether it is in the US automotive industry, US microcaps, cryptocurrencies or other company-specific evidence, with US equities trading significantly above historical levels. Additionally, we believe that exceptional fiscal stimulus will be withdrawn as soon as it is practicable, lest countries see their public finances derailed after a year of nearly-unprecedented borrowing. This could have a significant impact on the corporate bottom line going forward.

The most important factor that keeps us on our toes, however, is that we know that market performance is still driven by exceptional monetary stimulus. Accommodation will most probably remain elevated for the year, but 2021 will challenge the iron resolve of central bankers, as inflation figures are expected to materially climb. While we believe that this inflation will probably be transitory, a result of supply chain pressures, stimulus and mere year-on-year consumer price comparison (against the horrid Q2 2020), we need to remain vigilant in case it overshoots or overextends its welcome, causing central bankers to question a 12-year market-friendly policy which has often been dubbed as "the only game in town" for portfolio managers.

David Baker, CIO

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