# Wealth Management
# Weekly Market Update



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## Market Update

A positive week for equities saw all major equity markets close the week positive in local currency terms. With Sterling continuing its bullish start to the year this pushed EM equities down to a flat week in Sterling terms. US equities rose +2.0% in Sterling terms, hitting record highs. US equities were helped by falling bond yields, from Tuesday, which helped boost equity investor sentiment. UK equities rose +2.1%. Globally the best performing sector was consumer discretionary, whilst telecoms was the worst performing. Japanese equities rose +1.5%, erasing their losses year-to-date. The US 10Y yield continued its rise, although more modestly, up 5.9 bps to 1.6%, while the UK 10Y rose 6.6bps to 0.8%, reversing last week's fall. Gold rose +0.8% on the week. Oil fell, after last week's strong rise, down -1.4% on the week to $65.8. Oil is up +32.6% on the year, highlighting the extent to which vaccination programmes are increasing forecasters' outlooks for economic activity later this year.

| UK Stocks | US Stocks | EU Stocks | Global Stocks | EM Stocks | Japan Stocks | Gilts | GBP/USD |
|---|---|---|---|---|---|---|---|
| ▲ +2.1% | ▲ +2.0% | ▲ +3.5% | ▲ +2.2% | ▶ 0.0% | ▲ +1.5% | ▼ -0.7% | ▲ +0.6% |

*all returns in GBP to Friday close*

## Macro News

- The European Central Bank (ECB) announced that it will step up the pace of the purchases under the Pandemic Emergency Purchase Programme (PEPP) with the goal to maintain favourable financing conditions within the euro area. The Central Bank also revised its 2021 GDP and inflation forecasts in the eurozone upwards by 0.1% to 4% and by 0.5% to 1.5%, respectively.
- UK GDP fell by 2.9% in January, faring better than the 4.9% estimate based on a Reuters survey. The output contraction was, in part, driven by a lagging services sector while exports of UK goods to the EU, excluding gold and other precious metals, fell by 40.7% on a month-on-month basis.
- US weekly jobless claims fell to 712,000, reaching the lowest level since November 2020, but still above the peak reached during the 2007-2009 recession.

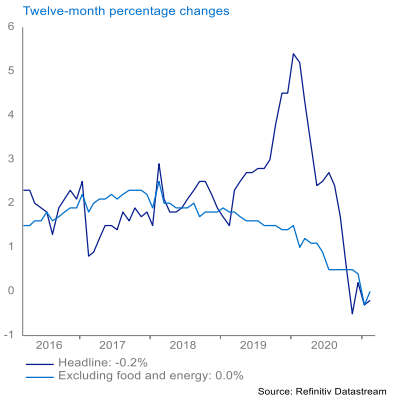
## The Week Ahead

- The US Federal Reserve, the Bank of England and the Bank of Japan are expected to have their monetary policy meetings this week with the focus on rising inflation expectations and long-term government yields.

## Week in Charts

**China CPI**

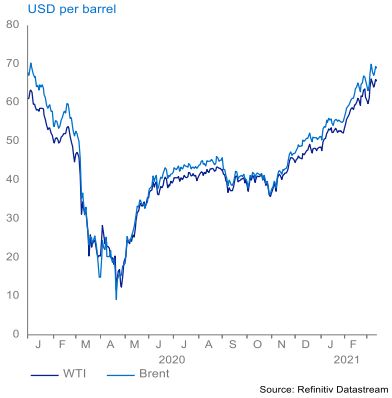
Twelve-month percentage changes




China's Consumer Price Index (CPI) remained fairly stable in February as it fell 0.2% on a year-on-year basis. Recent reports on a swine fever outbreak in parts of China have raised concerns on higher future pork prices adversely affecting CPI due to the good's large weight in the index.

**Oil prices trending upwards**

USD per barrel




Oil prices fell slightly over the week as OPEC revised its demand outlook for Q1 and Q2 downwards, expecting a stronger rebound in demand during H2 2021. Oil prices have already reached pre-pandemic levels after exhibiting a strong rally over the last six months.

## View From the Desk

Global stocks ended Friday back near all-time highs following a brief period of consolidation, with sentiment uplifted especially after the ECB pledged to increase the pace of bond purchases.

Despite the auspicious lack of drama, the week came with three stark reminders for investors:

One: This is not the time when yield curves will be allowed to steepen in an uncontrolled fashion. In the same manner, global central banks will continue to underwrite risk strategically, as long as the Covid-19 crisis persists. Debtors can rest assured that for some time ahead debt refinancing will be easy at low rates, and creditors can breathe easy that there aren't many defaults lurking in the 'receivables' part of the balance sheet.

Two: The road to universal vaccination (and the definitive exit from the Covid-19 crisis) is not a straight one. A number of countries in Europe have temporarily stopped inoculating people with the AstraZeneca vaccine after a report of blood clotting in Denmark. If one of the key vaccines goes back into review it could significantly compromise global vaccination rates and prolong lockdowns. Additionally, vaccine nationalism is becoming more overt. Two weeks ago Italy stopped a vaccine batch en route to Australia. Last week, the US stopped some vaccine exports to Europe. Apart from the obvious consequences, further delays in getting the vaccine where it is most needed to open up key economies and prevent mutations, investors should take note of the further unravelling of global multilateralism, despite the change of administration in the White House.

Three: This is a crucial period for post-Brexit Britain. External economic activity has been suffering. Exports of UK goods to the EU fell 40.7% from the preceding month while imports from Europe fell by 28.8%. As the lockdown regime hasn't differentiated much on a monthly basis, it is logical to assume that Brexit-related trade friction may be the primary culprit for reduced activity. The EU accounts for two-thirds of British trade. The bold goals set out in the budget (decentralisation, capital expenditure) could certainly change that picture over time, however over the shorter term we would expect such frictions to be a drag on the economic rebound.

***David Baker, CIO***



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