Wealth Management
Weekly Market Update

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Market Update

Relative to the year so far, last week saw quite a heterogenous response to news by markets. On one hand there is continued and growing positivity surrounding the opening of economies, but this has lead to some inflationary concerns. Meanwhile, the Suez Canal blockage raised concerns about supply chain disruptions. US equities rose +2.2% in Sterling terms, hitting record highs, helped by a more optimistic vaccine schedule from President Biden. UK equities rose a more modest +0.6%. Globally the best performing sectors were more defensive names such as consumer staples and utilities, whilst telecoms was once again the worst performing. Japanese equities fell -1.5%, moving back into contractionary territory this year. The US 10Y yield fell slightly, down 4.5bps to 1.7%, while the UK 10Y fell 8.1bps to 0.8%. Neither gold nor oil were much changed, both down -0.1% on the week, with oil trading just under $60 a barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.6%	▲ +2.2%	▲ +0.5%	▲ +1.3%	▼ -1.5%	▼ -1.5%	▲ +1.1%	▼ -0.6%

all returns in GBP to Friday close

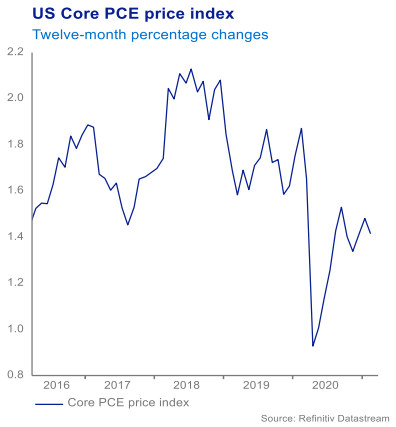
Macro News

- Business activity in the Eurozone during March returned to growth for the first time in six months according to flash Purchasing Manager's Index (PMI) data as the Composite PMI rose to 52.5 from 48.8 in February. The Manufacturing PMI stood at, a 23-year record high of 62.4, while the services sector contracted at the slowest rate in 7 months at 48.8.
- Inflation in the UK during February unexpectedly fell to 0.4%, from 0.7% in January according to the Office for National Statistics (ONS). The impact of rising energy prices was offset by a fall in prices of other goods such as food, clothes and second-hand cars.
- The Federal Reserve announced that it would put an end to restrictions on share buybacks and dividend payments for US banks that pass this year's stress tests.

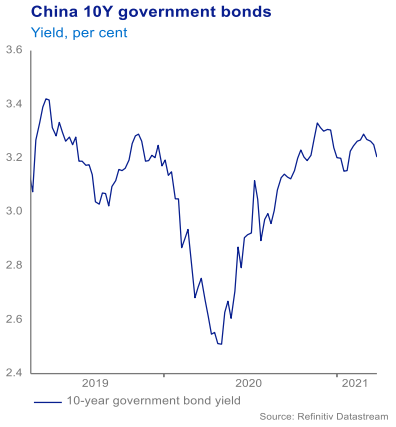
The Week Ahead

- US monthly unemployment data is to be released on Friday, with expectations pointing towards positive figures influenced by the decline in coronavirus cases, accelerating vaccinations and easing of the lockdown measures.

Week in Charts



The US Core Personal Consumption Expenditure (PCE) index, the Fed's preferred inflation measure, rose 1.4% in February after increasing by 1.5% in January on a year-on-year basis. Relative to the previous month the index rose by 0.1% after gaining 0.2%.



The yield on China's 10-year government bond closed at approximately 3.22%, 4 basis points less than last week due to expectations that monetary policy will remain accommodative. The People's Bank of China said that the policy should remain neutral as the recovery is not yet strong enough.

View From the Desk

The 10-year yield for the US Treasury pulled back somewhat last week, in the first sign of resistance towards curve steepening in more than a month. Data out of the US suggesting a modest pullback in the economic rebound (with the $1.9tn package yet to pass through the economy) was enough to give traders pause to realise that inflation at this point is more fear than fact. UK consumer prices surprising on the downside also suggested the same.

Central banks were probably not surprised. They have made it clear that long-term inflation is not on the radar and that they consider any uptick as a result of stimulus, and not renewed spending appetite. As much as markets are worried about inflation currently, they should probably be equally worried if evidence suggests that even after trillions in global fiscal stimulus and a post-Covid lockdown economic rebound, actual inflation is nowhere to be found.

In our view inflation should not necessarily be seen solely as a threat to the 'only game in town', monetary accommodation, but also the 'canary in the coal mine' of global demand. Its mere existence would prove that demand can outstrip normal supply and thus consumers want to spend.

To put it simply: for the twelve years prior to the Covid-19 crisis, absence of meaningful fiscal interventions has kept 'easy money' confined within the closed system of the financial markets. It was always assumed that if governments picked up the pace in fiscal terms we could see a significant resurgence of consumption. Fears that fiscal expansion would lead to inflation and steepening of the yield curve, increasing interest payments for over-indebted governments and destabilising the fragile recovery of the banking system post 2008, have stayed governments' hands. If, now that the fiscal taboo has finally broken, long term inflation continues to remain absent and yield curves fail to pick up, then markets could well turn their attention again to the possibility of deflation and react negatively if fiscal stimulus is withdrawn early. This could put governments in the same boat with central bankers who have been persistently pumping money into the economy without a viable exit strategy in a desperate bid to normalise demand. The great 'Post-Covid fiscal stimulus of 2025' could be a reality. Choosing between happier consumers and beleaguered central banks and governments, i.e. a violent re-rating of stocks under a new consumer demand regime, or a generation of 'Japanisation', rational long term investors would probably opt for the former. Not because this game is the one with the highest returns, but rather because it is the more sustainable course for global capitalism. Unfortunately, demand is not in their hands…

David Baker, CIO

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