Wealth Management
Weekly Market Update

Published 1 March 2021

Market Update

A significant rise in US Treasury yields unsettled markets last week. US equities fell -1.9% in Sterling terms, with Tech stocks suffering their worst week in nearly six months. UK equities fell -1.9%, with Energy and Financials the only two positive sectors for the week. Emerging Markets suffered the greatest sell-off, having led global equity markets so far this year. UK and Emerging Markets are the only major equity markets still positive for the year in Sterling terms. Globally the only positive sector was Energy which was supported by rising oil prices. Investors will keep a keen eye on the OPEC+ meeting this week for any indication of increased oil supply. Japanese equities fell -2.4% in Sterling terms, the worst performing region year-to-date for UK investors. The US 10Y yield continued its rise, up 6.9 bps to 1.4%, at one point hitting 1.6%, and the UK 10Y rose 12.2 bps to 0.8%. Long-term yields are now trading at their highest level since the pandemic. Gold fell -2.3% on the week, while Oil rose +4.4% to $62.7.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -1.9%	▼ -1.9%	▼ -2.2%	▼ -2.3%	▼ -5.8%	▼ -2.4%	▼ -1.4%	▼ -0.6%

all returns in GBP to Friday close

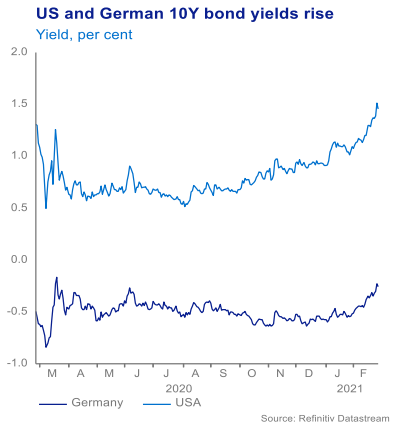
Macro News

- Fourth-quarter GDP growth rate for Germany was revised upwards to +0.3% from an initial estimate of +0.1%. Despite weak household final consumption, German economic growth was driven by strong fixed capital formation in the construction sector coupled with increased foreign trade.
- Weekly jobless claims in the US fell to 730,000, the lowest in 3 months, beating economists' forecasts of 830,000. There is a sign of easing pressure in the US job market amid declining infections and accelerating rollout of the vaccination program. In addition, US personal income increased by +10% in January, beating economists' forecasts of +9.5%. The figure was largely driven by the coronavirus relief package passed in December, posting the largest increase since April 2020.

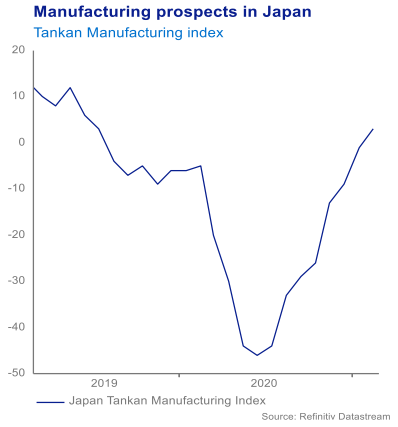
The Week Ahead

- Final Purchasing Managers Index (PMI) data for most countries are expected to be published this week for February. According to flash data we are expecting data divergence among developed countries with manufacturing, which tends to be less impacted by lockdown measures, typically faring better than the services sector in most countries.

Week in Charts



High inflation worries and strong economic rebound expectations pushed long-term yields higher in developed markets. The yield on the 10-year US Treasury note reached its highest level in over a year (c.1.61%), while Germany's 10-year bond yield rose to its highest level since March (c.-0.23%).



Business sentiment has increased in Japan as the Tankan Manufacturing Index recorded a positive value for the first time since mid-2019. The sentiment increased by four points to a value of 3, driven by improved conditions in chemicals and manufactured foods.

View From the Desk

Another week of heightened inflation expectations led to a simultaneous retrenchment of stock and bond indices. Markets are now experiencing a situation vaguely resembling the infamous 2013 "Taper Tantrum", a violent bond and stock market reaction to the Fed's plan of tapering Quantitative Easing. In a world where risk is actively suppressed by central bank policy, assets become more correlated and inflation is the only realistic inhibitor to the kind of unfettered accommodation that has driven risk asset performance for a decade.

Will inflation end the "central bank era" for financial markets? First, we have to note that long term market expectations are not a reliable predictor of long term inflation, as they correlate more with inflation in the next two months than with consumer prices in the next five years. Second, central banks have signalled that they are willing to tolerate higher short term inflation, currently exacerbated by the effect of year-on-year calculations, a global supply chain crunch and demand boosted by the expected end of lockdowns and fiscal stimulus.

We continue to listen to what central banks are saying and presently subscribe to their views. The year-on-year effect will pass, global supply chains will eventually repair themselves and demand will probably flatten out after the initial post-lockdown boost and the withdrawal of fiscal stimulus.

In fact, governments are getting ready to end Covid-era fiscal easing for fear of an increased debt burden. Ahead of the UK Budget announcement on 3 March, the government has signalled that it is as anxious to fund businesses that have suffered from the Covid-19 crisis as it is to reign in fiscal spending and avoid deficits it may find difficult to tackle. Investors would do well to remember that this environment, where additionally unemployment could well remain elevated vis-à-vis pre-crisis levels, is hardly conducive towards long-term inflation. With risks in fact mostly on the deflationary side and the need to manage global debt levels, we expect the big central banks to remain active in steering risk assets for the foreseeable future.

David Baker, CIO

mazars