Wealth Management
Weekly Market Update

Published 5 May 2021

Market Update

Once again many major equity markets finished the week not far from where they started. Market attention was squarely focused on the Federal Reserve, where chairman Jerome Powell promised not to raise rates in the near term; as a consequence, markets did not sharply react in either direction. US equities were flat in US Dollar terms, but up +0.2% in Sterling terms. UK equities were the best performing region, up +0.5% last week. European equities fell for the second consecutive week, down -0.8% in Sterling terms. Emerging markets fell -0.2% in Sterling terms. Japan was the clear laggard, where earnings failed to meet expectations and the Bank of Japan kept policy unchanged. Japanese equities fell -1.9% in Sterling terms. The US 10Y yield rose on improved economic data, up 6.8bps to 1.6%, while the UK 10Y rose 9.8bps to 0.8%. Gold fell -0.3% on the week. The better than expected economic data helped oil to rise +2.4% last week to $64.4.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.5%	▲ +0.2%	▼ -0.8%	▶ 0.0%	▼ -0.2%	▼ -1.9%	▼ -0.7%	▼ -0.4%

all returns in GBP to Friday close

Macro News

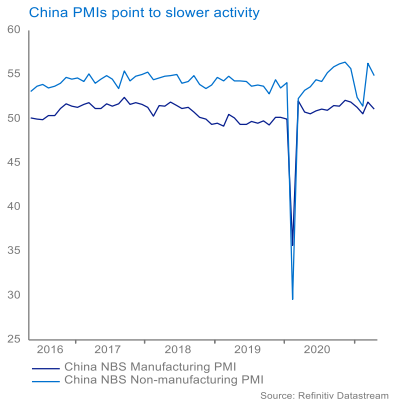
- The NBS Manufacturing PMI for China fell to 51.1 in April from 51.9 a month earlier. The NBS Non-Manufacturing PMI for China dropped to 54.9 in April from a four-month high of 56.3 in the prior month. Still, this was the thirteenth straight month of growth in the service sector, as a recovery in the economy from the Covid-19 hit continued.
- The US economy grew by an annualised 6.4% Q1 2021, following a 4.3% expansion in the previous quarter and slightly beating market expectations of 6.1%. Activity and demand consolidated their recovery from last year's steep contraction, helped by reopening efforts amid an acceleration in the pace of Covid-19 vaccinations and continued government response related to the pandemic.
- The Euro area economy shrank 0.6% in Q1 2021, slightly less than forecasts of a 0.7% contraction. The bloc entered a double-dip recession in the first quarter, as Covid-19 lockdowns continued to hurt the services industry

The Week Ahead

- The Bank of England meeting will take place this week. Investors will closely watch whether the central bank will take a more hawkish stance amid improvement in scientific data and rising optimism over the re-opening of Britain's economy.

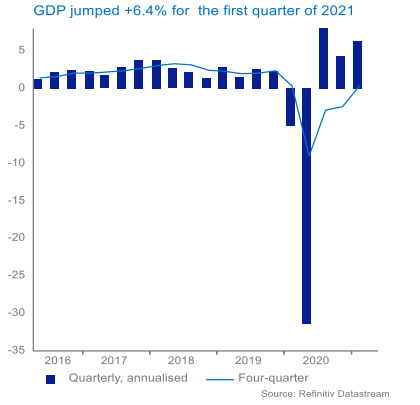
Week in Charts

China NBS PMIs
China PMIs point to slower activity



Data from the National Bureau of Statistics released on April 30 showed that the recovery in China's manufacturing and services sectors had slowed slightly.

US GDP
GDP jumped +6.4% for the first quarter of 2021



The US economy showed strong signs of recovery as consumer spending fuelled GDP Growth. GDP expanded at a 6.4% annualised rate following a softer 4.3% pace in the previous quarter. Personal consumption, the biggest part of the economy, surged an annualised 10.7%, the second-fastest since the 1960s.

View From the Desk

The macroeconomic picture is markedly improving, with data out of the US suggesting that a consumer-led surge in output is responsible for one of the biggest rebounds in economic activity during modern times. Further boosting economic sentiment are the US Government's plans to accelerate economic stimulation this year. The Federal Reserve also contributed positively to sentiment, reiterating its determination to remain 'patient' with rates. To cap a great week in news-flow from the developed world's leading economy, earnings reports suggest a surge in profits significantly above expectations, especially from banks which benefitted from a nearly unprecedented yield curve steepening last quarter.

One would think that the confluence of so many positive factors would drive risk assets price higher. Alas, after the week was over US equities were essentially unchanged. There are of course plenty of plausible explanations for that. For one, where could prices go? US and global stock prices have already raced significantly ahead of themselves, so companies are merely catching up to their 'frothy' (according to the Fed) valuations. Also, the Fed Board may not hike rates but it is reluctant to add further to asset purchases. Another narrative is that May is generally a month which sees a lot of investors reducing risk asset exposures. And, of course, one could site very legitimate fears of Covid-19's resurgence, especially as the situation in India continues to escalate.

However, we never really signed up to the notion that markets are such great forward-looking indicators that everything is just 'priced in'. The ultra-efficient market hypothesis is a construct that has more use as a narrative than a practical guide to markets. High valuations seldom seem to bother investors any more. India is as removed from western stock markets as Wuhan was a bit more than a year ago. And 'sell in May' is a myth that is just not corroborated by convincing data, especially in the past decade. Robots can buy and sell regardless of holidays, in fact they regularly do so.

One obvious answer is that if the Fed doesn't print any more money and valuations are still very expensive, then the 'only game in town' is over, at least for the time being.

Nevertheless, if that is the case, then markets might be missing the bigger point: that after more than a decade, fiscal stimulus maybe overtaking pure monetary stimulus as a driver for growth. The new US administration is increasingly viewing the pandemic as an opportunity to break 'secular stagnation' and it's been taking increasing steps towards expanding its reach. It might be slightly hubristic, but one could even go so far as to compare Mr. Biden's fiscal expansion plans to Franklin D. Roosevelt's 'New Deal' nearly a century ago, a policy that forever changed the face of the US economy. If that is the case, then companies should prepare to welcome back more confident and emboldened consumers in the near future, and the Fed would have to work overtime to try and balance a huge debt pile, an incredibly expanded balance sheet and 'good', demand-driven inflation. In this scenario, current valuations are neither expensive or cheap. They would be rendered irrelevant.

David Baker, CIO

mazars