Wealth Management
Weekly Market Update

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Market Update

With many regions operating a shortened trading week, returns varied significantly across major equity markets. UK equities provided the best returns to Sterling investors, up +2.4%. The rise in UK equities was helped in part by rising commodity prices, with miners and energy firms benefiting from rising metal and oil prices. European equities provided the next best returns, up +1.7% in Sterling terms. US equities rose a modest +0.2% in Sterling terms, though up +1.3% in local currency terms, as the rotation from growth to value impacted returns. Emerging markets fell -1.0% in Sterling terms. Japanese equities rose +1.3% in Sterling terms, not quite enough to move the region into positive territory year-to-date. The US 10Y yield fell temporarily on bad jobs data, although recovered somewhat, ending down 4.9bps to 1.6%, while the UK 10Y fell 6.7bps to 0.8%. Gold rose +2.4% on the week, while oil rose a further +1.0% to $65.4.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +2.4%	▲ +0.2%	▲ +1.7%	▲ +0.3%	▼ -1.0%	▲ +1.3%	▲ +0.6%	▲ +1.2%

all returns in GBP to Friday close

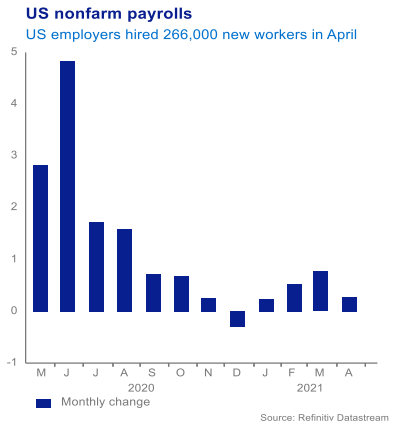
Macro News

- The US economy added 266K jobs in April, following a downwardly revised 770K rise in March, and well below market expectations of 978K, as employers face a worker shortage. Notable job gains were seen in the hospitality sector. Employment is down by 8.2 million, or 5.4%, from its pre-pandemic level in February 2020. Some analysts also consider that enhanced unemployment benefits are keeping people at home and not taking jobs.
- The Bank of England kept its monetary policy unchanged during its May 2021 meeting and announced a slowdown in the pace of purchases of Gilts to £3.4 billion per week, from £4.4 billion previously, signalling it is on course to end emergency support later this year. The central bank raised its 2021 GDP forecast sharply to 7.25% from its previous estimate of 5% growth, citing easing restrictions on economic activity and the country's fast rollout of Covid-19 vaccinations.

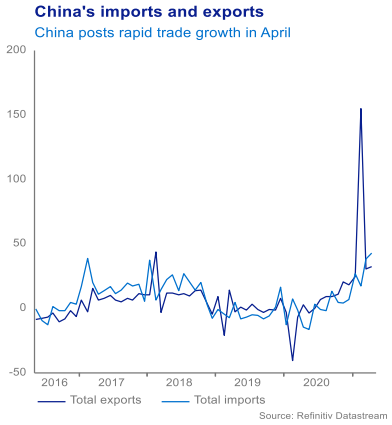
The Week Ahead

- The Q1 2021 GDP growth rate for the UK will be released this week. The UK economy likely contracted in Q1 after the government responded to rising Covid-19 cases with fresh restrictions on social and economic activity in December. But a strong vaccination campaign and steady reopening of the economy suggest the downturn was short lived.

Week in Charts



US employers hired 266,000 new workers in April according to the labour department's monthly non-farm payrolls report, which was far below the level of at least 1mn jobs that economists had expected.



China's exports and imports continued to grow strongly. Imports were up by 43.1% in the twelve months to April and exports by 32.3% - much stronger than the expected 24.1%. The robust figures are due to the rebound of overseas trade as developed economies recover from the pandemic, as well as favourable base effects.

View From the Desk

Markets remained tone deaf to a blowout earnings season in the US, which saw profits year-on-year grow by nearly 50%, more than twice the initial estimate. Unsurprisingly, however, investors remained fixed on what they still consider 'the only game in town', monetary policy. Comments by US Secretary of Treasury Janet Yellen early in the week, suggesting a possible controlled overheating of the economy and an upward pressure on rates, turned stock sentiment negative. The situation was reversed later in the week, when much weaker than expected jobs numbers suggested that the overheating may not happen.

We see three distinct lessons portfolio managers should take home this week:

One: The market may seriously be underplaying the effect of a massive fiscal stimulus. Nearly one hundred days after taking office, the new US President has sought to become surprisingly consequential, pledging to stimulate the economy by an astounding $1.9tn+$4tn package. This is nearly equal to the whole amount of quantitative easing in the past twelve years and it will be targeted much more towards the real economy. Money managers should see this as the most serious attempt to break the 'secular stagnation' mindset, which also makes it the most realistic endeavour to revive demand-side inflation. This means that, in terms of dictating prices for risk assets, Treasuries could become as important as central banks.

Two: The near indifference to very high earnings is an indication of how far ahead of themselves valuations had run. However, that this particular 'crocodile mouth' is closing upwards from the earnings side and not downwards from the price side, is a sign of a bullish market.

Three: Economic numbers for the next few months may be unreliable. Economists expecting to see one million jobs added in April instead had to settle for a third of that. Yet jobless claims in the same week were the lowest they have been during the pandemic. Macroeconomic volatility and data revisions are to be expected in this phase of exiting lockdowns. It is a confluence of unbalanced supply chains, comparisons against a previous record bad year and known inefficiencies in collecting data, exacerbated by the large swings in the data itself. Investors should not ascribe long term qualities to macroeconomic releases as long as the final shape of the post-pandemic economy remains wildly in flux.

PS. A final item, more long term in nature, is the recent cyber-attack on a major US Pipeline. The incident comes after a series of serious data breaches and cyber-attacks early in the year. While lacking the dramatic intensity of traditional terror attacks, one can be fairly certain that US agencies are taking the recent cyber-attacks on their infrastructure very seriously. We should not rule out an escalation of such incidents, with repercussions on the global political and economic stage in the very near future.

David Baker, CIO

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