Market Update

1st March 2021

Fairstone

As was hinted at last week, Boris Johnson unveiled a gradual roadmap for reopening on 22nd February that will see restrictions eased over four steps spread across at least four months.

The roadmap will be underpinned by four key 'tests' that are linked to data, including those related to vaccine roll-outs and efficacy, hospitalisation rates and 'unforeseen risks' from possible new variants.

The four steps are separated by five-week gaps and will happen uniformly across England, so there will be no return to the Tier system. 'Non-essential' shops will not be allowed to reopen before 12th April – still 6 weeks away – though large supermarkets and Amazon will still be allowed to sell non-essential items, and different households will not be permitted to meet each other indoors before 17th May – 11 weeks away.

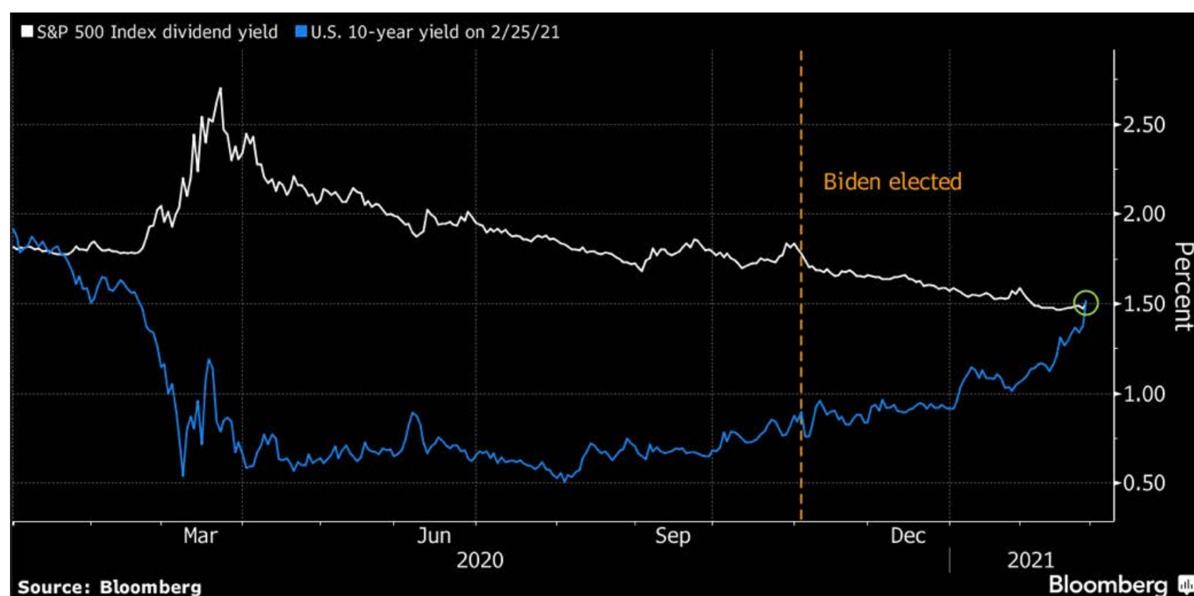
The 21st June is mooted as the date at which full normalisation will be able to occur, though as you might imagine, this in our eyes leaves a lot of room for slippage. For example, beneath the roadmap sit four reviews that the Government is conducting to try to answer questions around matters such as social distancing, mask wearing and congregating in large groups. All these questions need to be answered before restrictions can be consigned to the dustbin, and given the caution exhibited to date we find it difficult to believe that complete freedom will be allowed by June.

Close to 40% of UK adults have received a first vaccine dose, with second doses now being administered in gradually larger numbers and the timetable for future jabs brought forward given the roll-out's success. These numbers include the vast majority of those 'at risk' from Covid, and we find it increasingly difficult to understand the reticence to loosen lockdowns.

In Europe, vaccination numbers remain unimpressive, but though there are signs that Covid cases are beginning to rise in some nations, conditions remain generally easier than in the UK, with German Chancellor Angela Merkel holding talks this week on a possible further easing of lockdown restrictions. However in a sign of increasing unrest, for more than a week the streets of Barcelona, Madrid and other Spanish cities have erupted in sometimes violent anti-lockdown demonstrations driven by younger people who have seen their expectations much diminished over the past year – a phenomenon seen globally – as youth unemployment has risen to 40%, the highest in Europe. This follows on the back of similar protests in the Netherlands and other parts of Europe as the younger age groups, last in line for vaccines and with schools and universities shuttered, experience alarming increases in levels of mental health illness; just one of the unintended consequences of lockdowns.

In the US, President Biden's $1.9tn stimulus bill was guided through the House of Representatives in a boost for his efforts to support those hard-hit by Covid restrictions. The bill contains measures for $1,400 stimulus cheques, enhanced jobless benefits and fresh funding for vaccines and testing and must now move through the Senate, where it will face challenges particularly around the inclusion of a $15 minimum wage measure. Regardless, the bill will pass in some form, and represents another enormous fiscal boost which some worry may be too much at this time given the relatively positive state of affairs in the US.

We saw a tumultuous week in markets as the rise in global bond yields continued amidst more positive economic sentiment and higher expectations of inflation. As outlined last week, this had the effect again of negatively impacting particularly global technology stocks which fell sharply in absolute and relative terms as valuation prospects were re-rated downwards, and a further rotation into cheaper 'value' stocks occurred. As can be seen in the chart below, for the first time in around a year, the S&P 500 dividend yield has dipped below the 10-year US Treasury Note yield; a statistic that may impact the relative attractiveness of bonds versus equities:



The UK was a relative outperformer again, though both the FTSE 100 and 250 indices fell by 1.9% and 0.6% respectively. Beneath the index level, those strategies biased towards value stocks performed strongly in absolute terms, rising up to 2%, whereas those focused more on Covid 'winners' fell sharply.

This was a theme replicated across global equity markets to a greater or lesser extent, regardless of how good or poor the headline index return was. In Pound terms, European and US equities fell by 2.1% and 2.2% respectively, but deeper losses were seen in Japan (-4.2%) and Asia (-6.1%); the latter being a region whose equity market has become increasingly dominated by large technology stocks.

In bond markets, sharp losses were also seen, with Gilts falling by 2.0% despite a recovery at the end of the week, and investment grade corporate bonds falling by 1.2%. Gold and silver prices rose at the start of the week but faded to end down between 2.5-2.9% as the US Dollar rose versus other currencies.

In the week ahead we will see 'final' PMI data for various global regions which will provide important signposting for the economic outlook, along with the always-important US jobs number for February which is expected to bounce back from a disappointing January to a consensus 180,000. Equity markets have recovered at the start of this current week, but we fully expect volatility to return in future months.

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