



The UK's budget announced last week contained few of the previously mooted tax rises, but did have plenty of warnings of the need to 'balance the books' after more than £400bn of 'wartime' Covid-related spending; a figure that will continue to rise through 2021 as a result of various new measures announced.

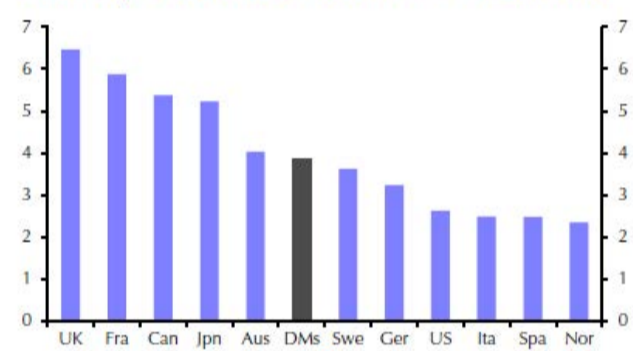
The Government's furlough scheme will continue through September with a taper from July, with support for the self-employed also increased. Uplifts in unemployment benefits were also extended, as were business rates holidays and the VAT reduction for the retail, hospitality, leisure and aviation sectors. A programme of 'restart' grants was also unveiled to help high street businesses reopen after lockdown. Around 700,000 businesses will be eligible for grants of between £6,000 to £18,000 depending on when they reopen.

To counter this relative generosity, the Chancellor announced that personal income tax thresholds will be frozen, which whilst not an explicit tax rise, will result in increasing numbers of workers being bumped into higher tax brackets over time as wages rise – a measure expected to raise over £19bn by 2025.

Additionally, a new, tiered system for corporation tax will be implemented from 2023, which hikes the rate from 19% to 25% for the most profitable businesses, though this also was tempered by a new 'super-deduction' for companies, allowing a deduction of up to 130% of new capital investment from overall taxable income in an attempt to coax businesses to put their cash to work.

Estimates vary of the amount of spare cash businesses have, with Capital Economics suggesting that excess corporate savings in the UK amount to more than 6% of UK GDP in 2020 alone:

Chart 6: "Excess" Accumulation of Currency & Deposit Assets by Non-Fin. Businesses as a % of 2020 GDP



Sources: Refinitiv, Capital Economics

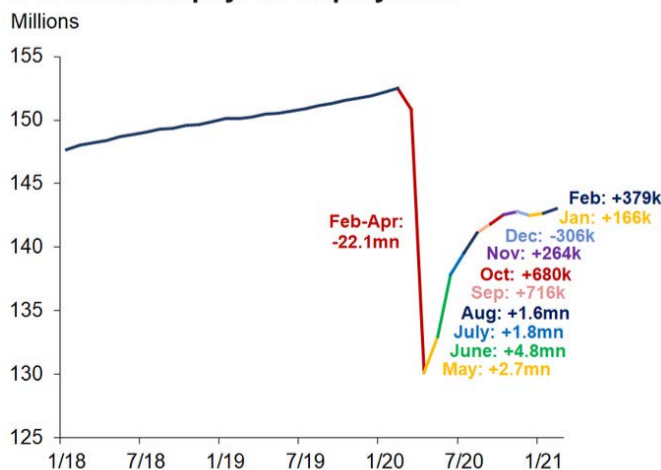
It is clear that this budget was designed to continue to support the country in the short-term, rather than focusing on the UK's long-term economic prospects, and in this sense it seems to us to be a sensible set of policies, though we suspect none will prove as powerful as allowing the country to fully normalise.

In the US, President Biden is on the cusp of his first legislative win after the Senate passed his \$1.9tn stimulus bill following a marathon session on Saturday 6th March. The House of Representatives will now give final approval this week to a bill that contains a raft of supportive measures for workers, the unemployed and troubled state and local governments. Major highlights include \$1,400 stimulus payments for eligible individuals, payments of up to \$3,600 for children under an expanded child tax credit plan, and an extension of the \$300 weekly federal unemployment benefit through to September.

Enactment would set the stage for work this spring on President Biden's plan for a massive infrastructure and manufacturing recovery bill, centred around the green economy, with other measures included in this paving the way for additional changes further down the line on, for example, student loan forgiveness.

The stimulus bill is set to pass even as the US economy heats up, with unemployment falling to 6.2% in February and 379,000 jobs added, with upward revisions made to December and January's numbers. The US is still short of 9.5m pre-Covid jobs, but the trend is clear and positive:

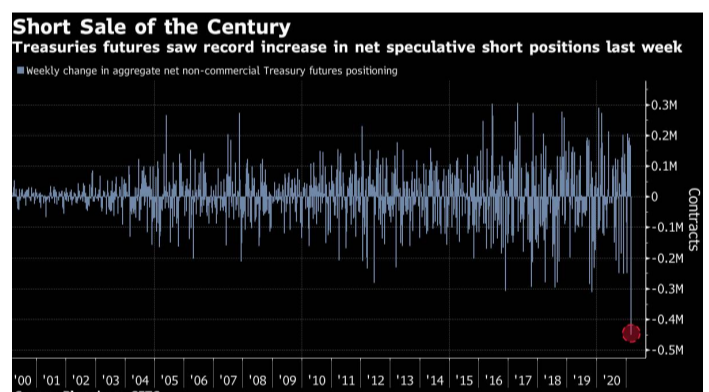
US: Nonfarm payroll employment



Source: Oxford Economics/Haver Analytics

In markets, we saw more wild price swings in bond and equity markets in a continuation of last week's narrative. Bond yields in the US continued to rise, with the 10 year Treasury Note rising to just above 1.6% on Friday as investors priced in higher growth and inflation expectations. While the 10 year yield has risen significantly from its summer-2020 lows of around 0.53%, it is still yet to regain its pre-pandemic highs of around 2%, though with the economic recovery ongoing and huge stimulus being pumped in, we wouldn't bet against that level being reached.

Federal Reserve Chairman Jerome Powell has made it abundantly clear that monetary policy will remain extremely accommodative for the foreseeable future, though worries abound that a sustained rise in bond yields may cause a tightening in financial conditions that could choke off a recovery. For now, as the chart below shows, investors' bond bets are very much skewed to the short-side in the derivatives market, with short interest in US government bonds increasing by a record amount last week:



Amidst this, equities were volatile, first falling sharply before rising into the end of the week following the US jobs report. The UK in the form of the FTSE 100 performed well again, this week in absolute as well as relative terms, rising by 2.5%, with the US S&P 500 following behind with a 2.0% weekly gain, achieved after a 3.2% surge on Friday. Emerging market and Asian equities returned 1.2% and 0.9% respectively, with European equities further back on 0.5%.

Again, though, beneath the index level, returns between 'growth' and 'value' equities sharply diverged in reaction to the movements in bond markets. At the global level, the differential between the two styles was close to 4% over the week, with value having now outperformed growth by around 13% since the first set of vaccine announcements in November 2020. Should current conditions persist we could reasonably expect this trend to continue through the year.

Markets have opened this week in a similar vein, with global technology companies weaker and more cyclical names gaining further. Various important data points will be released this week, including measures of inflation in the US and China, along with the European Central Bank's latest interest rate decision; all will be watched closely to gauge market sentiment.

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