Market Update

29th March 2021

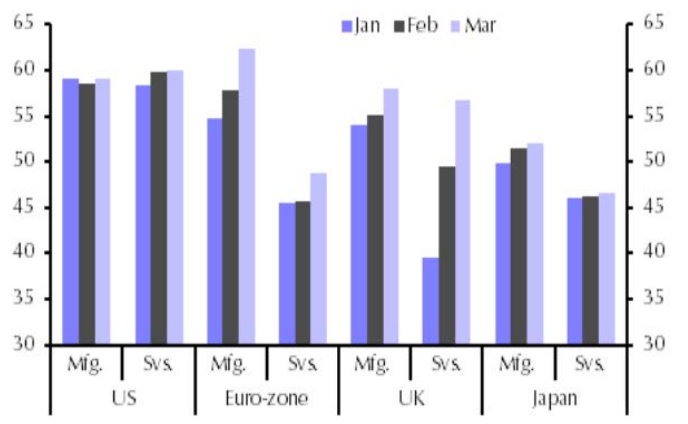
Positive economic data in the form of 'flash' Purchasing Managers Index (PMI) surveys for March saw equity markets in the UK, Europe and notably the US perform relatively well versus Asian and Japanese equity markets, where better news is generally more priced in.

PMI data are an important 'soft' indicator, providing information about current and future business conditions. They are based on a monthly survey of supply chain managers across a wide range of industries, with different indices for manufacturing and services businesses being aggregated into a composite score. Index levels above '50' indicate expansion, and vice versa, while the trend of the index is also important to gauge momentum.

Per the chart below, Europe and particularly the UK saw large rises in scores, notably in the services sector as lockdowns are slowly loosened.

While this should be a sign of strength to come in the UK, the Euro-zone survey has yet to reflect the impact of the recent renewal of virus-related restrictions which will almost certainly see PMI falls next month:

Chart 2: Manufacturing & Services PMIs



Also noted in these surveys were rising issues around supply shortages and shipping costs as businesses look to rapidly re-stock to meet normalised demand.

For now, manufacturing output is generally increasing despite these issues, though evidence of cost pass throughs to manufacturer's output prices were evident this month, particularly in the US as the chart below shows:

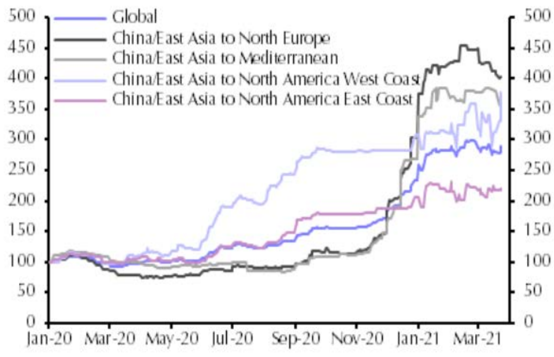
Chart 3: Manufacturing PMI: Output Price Indices

Supply shortages have built up due to Covid restrictions, but exogenous factors have contributed too, with the Suez Canal blockage an obvious example.

The Ever Given – a container ship the size of the Eiffel Tower – became wedged across the Canal last week on route from China to Rotterdam carrying a cargo of everything from frozen fish to furniture, holding up more than 450 ships and forcing others to opt for the long and expensive alternative trip around the southern tip of Africa.

The Canal is a conduit for around 12% of world trade and the incident has seen a sharp rise in particularly oil price volatility over the past week. If not resolved soon, it could push shipping freight rates even higher, exacerbating temporary supply shortages and pushing price pressures even higher:

Chart 1: Freightos Baltic Container Freight Rate Indices (1st January 2020 = 100)



As mentioned, western equity markets outperformed eastern markets as optimism continued to rise on vaccine roll-outs. In Pound terms, the S&P 500 rose by 2.2% after a late surge on Friday after the Federal Reserve freed banks from restrictions on dividends and the US Dollar fell in value.

UK indices also performed well with gains of 0.6% and 0.4% for the FTSE 100 and 250 respectively, helped by another downwards revision to the Office for Budget Responsibility's unemployment forecast. Conversely, Japanese equities fell by 1.41% with Asian and Emerging Market indices further back.

Bonds performed well at the start of the week before falling into the end of the week as sentiment improved. UK Gilts rose by 0.8% and index-linked Gilts by 1.1%.

Investors' attention will remain predominantly focused on the outlook for Covid, which continues to be the driving narrative behind price fluctuations despite others' best efforts. Vaccine numbers continue to be strong in the UK and the US, and though currently weak in Europe, recovery potential exists for the second half of the year.

A global roadmap to normalisation is still a sensible base case, though obvious downside risks still remain to that, which we will continue to monitor closely.

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