Market Update

22 March 2021

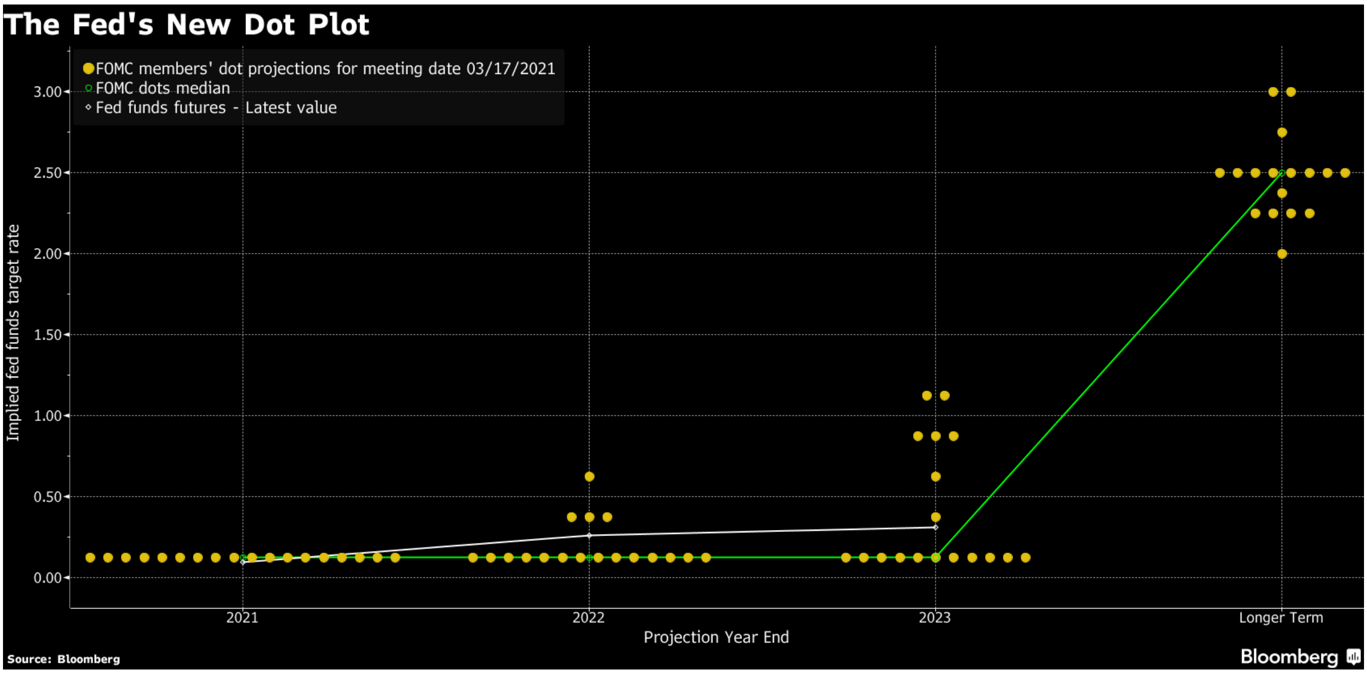
Equities and bonds saw a more volatile week as a bright opening was curtailed by the US Federal Reserve (Fed) failing to assuage inflationary fears at its monthly Open Market Committee meeting, with sentiment further dampened by renewed European lockdowns and vaccine nationalism.

While Friday saw something of a recovery, the damage was done in the days before, with US 10-year government bond yields rising above 1.7% - the highest since January 2020. This dented demand for expensive 'growth' equities, as the Nasdaq 100 index fell by more than 3% on Thursday.

For the week in aggregate, US equities fell by 0.6% in Pound terms, with Asian equities the same. European equities were flat, while UK equities ended weakly with the FTSE 100 falling by 0.7%. Conversely, Japanese equity returns of 3.0% were boosted by a continued dovish stance from the Bank of Japan, a slightly stronger Yen and perceptions of better growth prospects.

Bonds fared little better, with UK gilts dropping by 0.4% and corporate bond indices around the same, though index-linked Gilts bounced hard on Friday to end the week up by 0.7%. Gold (1.4%) and silver (1.8%) performed well during the period, rising steadily through the week after a prior period of weakness.

These gyrations came despite Fed Chair Jerome Powell continuing to project near-zero interest rates at least through 2023 despite upgrading the US economic outlook. As the 'dot plot' chart below shows, the median position of the Committee is for the status quo to continue for the next 2 years at least, though a larger group of Committee members do now see an earlier start to the withdrawal of ultra-easy monetary policy:



At the moment, the Fed sees the coming bump in inflation as being short-lived given 'slack' elsewhere in the economy, though it now forecasts unemployment to fall to 4.5% by the end of 2021 and a much faster rate of GDP growth this year, too.

Elsewhere, the European Covid situation continues to deteriorate on multiple fronts, with rising cases forcing lockdowns in France, Italy and Germany amidst the slow roll-out of vaccines. AstraZeneca jabs were paused for several days across the EU to investigate reports of blood clots in patients before being restarted, though this is unlikely to have a positive impact on what was already a low take-up rate.

Politicians rarely improve delicate geopolitical situations and this case is no exception, with the EU moving to block vaccine exports to Britain on Sunday night, the motivation for which it seems is at least partly political. AstraZeneca and other vaccine exports have been threatened, with Boris Johnson set to hold bilateral talks with European leaders this week in efforts to broker a compromise.

The European Commission president Ursula von der Leyen further warned that all options were on the table, including triggering Article 122 of the EU's treaties, which would allow the seizure of factories, the waiving of patent and intellectual property rights and export bans.

The legal basis for these threats looks weak and is desperately unhelpful given the current circumstances. As lockdowns are reimposed in some of Europe's largest cities, social unrest is rising in lockstep. We would argue that this posturing does little good, with energy better spent elsewhere on improving vaccine delivery.

Oliver Stone

Head of Portfolio Management

The value of investments may fluctuate in price or value and you may get back less than the amount originally invested. Past performance is not a guide to the future. The views expressed in this publication represent those of the author and do not constitute financial advice.