

FEBRUARY COMMENTARY

17.02.2021

After starting the year on a firm footing, volatility in global equity markets picked up sharply in the final week of January. The move lower in equity markets was sparked by extraordinary retail investor buying, of stocks unfancied by hedge funds and institutional investors who had previously sold (shorted) the same stocks as part of their own strategies. Co-ordinating their activity on Reddit forums, amateur investors targeted names such as Game Stop, the US high street computer games store, surging share prices several hundred percent higher and inflicting heavy losses on professional investors who scrambled to buy back the stock they had sold. These unusual moves led to a wider deleveraging in markets, with low quality stocks rallying and higher quality favoured stocks selling off.

By the start of February financial market volatility was receding again and risk assets resumed a robust climb higher. At the same time 10-year US Treasury yields have tracked c. 0.20% higher hitting a post-COVID-19 crisis high of 1.27% (at the time of writing). However, the accompanying US Dollar strength has been limited with the trade weighted index only rising 0.25% and trending lower versus Sterling being unchanged (-1.2% MTD).

Incoming economic data releases continue to be shaped by the health-care crisis, however positive news on vaccination rollout and ongoing economic policy support has maintained the positive sentiment in markets. Where vaccination distribution has been at its fastest (Israel, UK, US), there is clear encouraging evidence that it is reducing rates of hospitalisation and mortality in the most vulnerable. Vaccine resistant mutations will continue to be a risk for markets, however for now investors have viewed the balance of news positively.

In the US, the new Biden administration has moved quickly to roll back Trump-era policies on immigration, border walls and membership of the World Health Organization - but the policy priority has been another round of fiscal stimulus. The proposed American Rescue Plan of \$1.9 trillion was met with opposition by Republicans and although efforts were made to reach a bipartisan compromise, President Biden will now use the budget reconciliation process to avoid a Senate filibuster. At a G7 meeting of Finance Ministers, new US Treasury Secretary, Janet Yellen urged other members that now was the time "to go big" on fiscal policy support.

Monetary policy has remained largely unchanged in the past month, but officials have used several opportunities to forcefully reiterate their commitment to accommodative policy. At a recent speech to the Economic Club of New York, Fed Chair, Jerome Powell, stressed the importance of policy remaining "patiently accommodative" and that would it be some time before their policy objective of full-employment would be met. At the February meeting of the European Central Bank, President Christine Lagarde outlined a flexible approach to using its EUR 1.8 trillion pandemic bond-buying programme, but pledged to "preserve favourable financing conditions."

Recent economic data has been mixed, but on balance it has not negatively surprised versus analyst expectations. Global business survey data points to a loss of momentum in activity, but it is far from a collapse and future expectations have remained robust. As expected, services consumption data has weakened simultaneously with increased COVID-19 restrictions, but business investment spending has remained reassuringly firm through the end of 2020 and the

start of this year. Despite a small miss, versus expectations, of jobs added over the month and a fall in the rate of unemployment to 6.3%, the US labour market report for January was disappointing given downward revisions to previous reports and a fall in participation rate.

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