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JANUARY MONTHLY COMMENTARY

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Global equities started the year in the same bullish manner that drove markets to record highs at the end of 2020. European indices added another 2.0% throughout the first three weeks of the year, marginally outperforming the US, with financials and pharmaceuticals gaining as tech lagged. Investor sentiment continues to remain positive, with optimism for a strong rebound in the global economy in 2021 still high, as governments and central banks show little sign of scaling back their supportive rhetoric.

Risk markets were buoyed by the Democrats taking control of the Senate for the first time in six years, adding conviction to the President-elect's ability to push through a more generous economic rescue package. Mr Biden now hopes that a Democrat-led Congress will be able to pass a new $1.9tn programme in order to support household spending, state and local governments and the unemployed. The US economy lost 140,000 jobs in December with the unemployment rate remaining stubbornly high at 6.7%. The package will see every American who earns less than $75,000, receive a one-off $2,000 payment. The confirmation of the blue sweep across The Capitol saw 10-year treasury yields rise from 0.91% at the start of the year to as high as 1.18%. The new package is set to come solely from new debt issuance which has put pressure on the US dollar with speculative bets against the dollar now building up to their highest level in nearly three years.

Investors have seen little reason thus far to ramp up dollar exposure as Fed chair Jay Powell sought to quell concerns that the Fed would begin reducing its asset purchases later in 2021. He noted that the central bank was far from considering an "exit" from its ultra-loose monetary policy. He added that once the Fed had "clear evidence" of improvements in the labour market and inflation, it would "let the world know" about its asset purchase policies. His comments settled investor worries about a premature wind down in its programme, following comments by several regional Fed presidents, which had helped accelerate a sell-off in US government bonds, pushing yields to their highest level since before the pandemic.

Back in the UK, Boris Johnson's government managed to pen a Brexit trade deal with the EU that alleviated plenty of investor concern over the UK crashing out of the trade bloc with no prior trading arrangement in place. Whilst the deal fails to cover the majority of the services sector, including financial services, investors hope that the reduction in uncertainty can pave the way for an improved equity market performance that has lagged its US counterpart since the vote to leave in 2016. With such uncertainty removed, sterling has naturally traded higher in the first few weeks of the year, reaching a level just shy of $1.37. Elsewhere the government's vaccine rollout across the UK has provided reasons for optimism, with over 4 million people already receiving their first jab. Hopes for the most 'at-risk' individuals being vaccinated by the Spring remain high, with a gradual easing of restrictions paving the way for improved economic growth in the remaining three quarters of 2021.

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