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Monthly Market Update



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“On February 3rd a significant global milestone was reached, as the number of people vaccinated against Covid-19 exceeded the number of cases”



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February 2021 Market Commentary

The world reached a psychologically significant milestone on the 3rd February, as the number of people vaccinated against Covid-19 exceeded the number of confirmed cases, according to the Financial Times vaccine tracker. However, the trajectory of the global economic recovery still very much depends on health outcomes and the pace of vaccination rollout.

The \$1.9 trillion US fiscal support package has raised analysts' expectations for US GDP growth for 2021. The UK enjoyed surprisingly strong growth at the end of 2020, but the Euro area is expected to slip back into recession and regional lockdowns and travel restrictions may impact growth in China, both during Q1 2021.

United Kingdom

FTSE All Share: 1.99%

The decline in GDP for all of 2020 stood at a record negative 9.9% and the strong lockdown measures currently in place may lead to a further severe contraction in Q1. However, strong vaccination rollout has boosted expectations for a meaningful economic rebound during Q2 and Q3 and full-year 2021 GDP growth is forecast to be around 6%.

The Bank of England (BoE) maintained its interest rate at 0.1% in February and left its UK government bond purchasing programme unchanged at £875 billion.

Inflation in the UK rose by 0.7% in January. Experts forecast inflation to rise gradually toward the BoE's 2% target in 2021, given monetary and fiscal stimulus and the imposition of post-Brexit trade barriers.

The Coronavirus Job Retention Scheme (CVJRS) has been extended to run until the end of September 2021, helping to keep unemployment rates low in the UK. The unemployment rate is expected to rise upon the unwinding of the CVJRS, and then to fall as the economic recovery gains pace. The unemployment rate rose to 5.0% and the rate of redundancies rose to a record 1.42% in the three months ended in November 2020.

Discrete Monthly Performance as at 28/02/2021



United States

S&P 500: 0.88%

With the current pace of vaccination in the US at a one-week average of 1.61 million per day (at 17th February), experts believe economic activity will pick up significantly in the second half of the year. Estimates of US GDP growth in 2021 above 5%, aren't yet accounting for the extra \$1.9 trillion of government fiscal support.

The US Federal Reserve (Fed) left its interest rate unchanged at 0%–0.25% and its bond-buying programme unchanged at \$120 billion per month. Analysts see the Fed keeping its interest rate on hold at least throughout 2022.

Inflation rose by 1.5% in December compared with a year earlier. Commentators expect inflation to be pushed above the Fed's 2% target in the first half of the year, but don't foresee a sustained inflationary trend.

Unemployment in the US fell to 6.3% in January reflecting the easing of Covid-19 restrictions.

Europe

FTSE Developed Europe ex UK: 0.26%

In the Euro area GDP fell by 0.6% in Q4 2020 and experts anticipate the region will slip back into recession during Q1 2021. A relatively slow rollout of vaccine distribution and fears of mutated Covid-19 strains heighten the region's downside risks. However, analysts continue to foresee economic growth accelerating later in the year, expecting full-year GDP growth of 5%.

The European Central Bank (ECB) left its interest rate unchanged at -0.50% at its January policy meeting. The ECB expanded its emergency bond buying programme by €500 billion to €1.85 trillion and is expected to keep the interest rate below zero for at least 12 months.

Inflation rose by 0.9% in the Euro area during January. Experts believe that short term prices will remain subdued, but expect inflation to rise to 1.5% by the end of 2021. Unemployment was unchanged in December 2020 at 8.3%.

China

CSI 300: -0.08%

Covid-19 outbreaks and regional lockdowns may leave GDP growth in China below its Q1 potential. However, analysts expect the fall in consumption demand to quickly recover in Q2 and the full-year outlook for China's growth to remain unchanged at around 9.0%. China's economy grew by 2.3% in 2020, with Q4 GDP growth of 6.5%. Inflation fell by 0.3% in January.

Chinese policymakers emphasised that any shift in fiscal and monetary policy would be gradual, with experts anticipating credit growth slowing and presenting a headwind to growth.

Japan

MSCI Japan: -0.29%

A sense of caution weighed on Japanese stock markets during February due to a short-term surge in inflation. However, the approval of a new coronavirus vaccine and anticipation of major US fiscal stimulus led to a rally causing the Nikkei 225 Index to temporarily top 30,000 for the first time in three and a half decades.

Emerging Markets

MSCI Emerging Markets: -1.03%

Vaccine breakthroughs and rollouts in developed economies make experts optimistic that emerging markets' GDP, in aggregate, will grow by more than 8% during 2021. The growth story will also likely be positive for the Middle East should energy prices remain strong. There is also optimism around vaccination efforts as vaccines in India and Russia have proved effective.

Global Bonds

Bloomberg Barclays Global Agg: -3.47%

February 2021 was the worst month in modern times for government bonds, with certain markets experiencing very extreme moves.

The relative success of the vaccine rollout in the US resulted in higher growth expectations versus Europe and other regions. This, in turn, led to an increasing yield differential between the US and Europe. As a result, the Euro has weakened against the US Dollar, which experts forecast to continue.

All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.

Cumulative Performance and Annualised Volatility as at 28/02/2021

	1 Year %	3 Years %	5 Years %	Volatility % ²
Global Bonds	-4.69	10.33	19.00	9.37
UK Equities	3.50	3.76	33.02	13.61
US Equities	19.32	44.05	110.61	13.18
European Equities	13.82	15.92	63.23	13.53
Japan Equities	17.29	14.71	69.95	12.11
Asia Equities	28.76	29.76	106.04	14.90
China Equities	40.12	40.20	113.93	16.40
Emerging Market Equities	24.29	18.55	102.58	15.05
Global Equities	18.17	33.95	92.80	12.53

Data source FE Analytics 28/02/2021. Indices used: Global Bonds: Bloomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.

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