Handelsbanken
Asset Management

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Weekly Bulletin: An unwelcome anniversary in financial markets

Key takeaways

The coming week marks the first anniversary of the initial market selloff in response to the COVID-19 pandemic. Meanwhile, ongoing vaccine rollouts continue to create a more positive outlook for the global economy.

- Financial markets paused for breath last week, with prices falling for both riskier assets (such as shares) and traditional investor 'safe havens' (such as bonds and gold). However, despite a poor week for most asset types, major stock markets largely remain in positive territory for the year so far. Bond markets, on the other hand, have been giving up some of their 2020 gains.
- The largest vaccination campaign in history continues to roll out across the world at breakneck pace. In the US, an average of more than 1.5m doses of the vaccine are being administered per day, while in Israel (a global leader in vaccinating its population) there are early signs that vaccines are already slowing transmission rates and lessening the symptoms of the virus.
- Mainland Europe's missteps in its own vaccination programme have been well reported, but last week saw new contracts secured with a range of providers (including Pfizer and Moderna). This latest news means that the continent's most vulnerable 20% could be inoculated by May. In the UK, a locked-down population awaits the latest update from the prime minister on a road map out of the current restrictions. Across the Atlantic, the US economy appears to be on course for economic reopening in the foreseeable future, which would spell good news for both domestic and global growth.
- Indeed, from an economic perspective, there are early signs of improving activity in most major global regions, aided by the vaccine rollout. As populations arm themselves medically against the pandemic, this economic recovery should prove to be more durable as the year progresses.
- Inflation is fast becoming a hot topic, backed up by the latest manufacturing sector survey data, which points to rising costs. However, the world's leading central banks have made it very clear that they view near-term inflation as a temporary phenomenon. US central bankers have been outspoken about working towards improvement in the weak employment picture, meaning that we can expect continuing supportive central bank policy ahead – welcome news for risk assets like shares.

Weekly market moves

In a poor week for most asset types, the UK stock market outperformed its global peers due to its prevalence of 'value' shares (cheaper shares in less growth-oriented companies), which came into favour in recent days.

Sterling also strengthened versus other major global currencies.

Traditional 'safe-haven' asset types like bonds and gold weakened over the week (bond yields – which move inversely to bond prices – rose).

What to look out for this week

President Biden's economic stimulus plan is still wending its way through the US legislature. The House of Representatives (lower house of Congress) is due to vote on the package on Friday.

Sticking with the US, Chair Powell of the US Federal Reserve Bank is due to deliver his annual testimony to Congress this week. He is expected to reiterate the central bank's commitment to supporting US economic recovery.

Market moves (as at 19 February 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,856.7	0.9%	3.5%	2.8%
MSCI United Kingdom Mid Cap	1,284.7	0.1%	3.5%	2.9%
MSCI United Kingdom Small Cap	438.5	0.0%	4.3%	3.1%
MSCI World (GBP)	2,099.8	-1.6%	3.4%	2.0%
S&P 500 (GBP)	3,906.7	-1.8%	3.2%	1.7%
MSCI Japan (GBP)	1,186.8	-1.7%	4.0%	2.5%
MSCI Europe ex-UK (GBP)	1,482.7	-1.3%	2.4%	0.1%
MSCI Pacific ex-Japan (GBP)	1,685.8	0.1%	3.3%	3.6%
MSCI Emerging Markets (GBP)	79,626.8	-1.1%	5.4%	8.2%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,338.0	-1.9%	-4.4%	-6.1%
BoA Merrill Lynch Index-Linked Gilts	579.5	-2.9%	-5.1%	-8.0%
BoA Merrill Lynch £ Corporate	467.2	-1.2%	-2.1%	-3.2%
Commodities				
Oil (West Texas Intermediate, GBP)	$59.2	-1.6%	11.3%	19.5%
Gold (GBP)	$1786.2	-2.8%	-6.1%	-7.7%
S&P / GSCI (GBP)	2,261.1	0.1%	6.8%	11.6%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

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