Handelsbanken
Asset Management

1 March 2021

Weekly Bulletin: A volatile week for global bond markets

Key takeaways

Last week, growing concerns around inflation caused investors to fear the approaching removal of central bank support. This resulted in turbulence throughout traditional financial markets, particularly impacting bonds.

- Global bond markets dominated financial market news last week. Bond yields (which move inversely to prices) were highly volatile, sparked by growing concerns that ongoing economic recovery could stoke inflation, and in turn lead to reduced support from major central banks. This also created weakness in stock markets, with recent investor darlings like technology shares especially hard hit.
- Despite the noise in financial markets, Chair Powell of the US Federal Reserve Bank (Fed) maintained his reassuring tone, and continued to signal accommodative policy for some time to come. Powell referenced the US jobs market, which remains 10m jobs beneath its pre-pandemic peak (last February), pointing out that the US has 'a long way to go' before reaching maximum employment. Given that it could take more than three years for the Fed to reach its inflation goal of 2%, we believe investors should assume that the central bank is in no rush to pare back on stimulus any time soon.
- Meanwhile, a range of data delivered positive surprises over the week, including new US jobless claims, durable goods orders, and personal income levels. The latest round of corporate earnings data in the US has also been much better than initially expected; corporate earnings are now expected to rise by more than a fifth in 2021, and this forecast could rise further if economic growth projections continue to improve.
- Following weeks of speculation and tinkering, President Biden's $1.9trn relief plan to help the US economic recovery has been approved by the House of Representatives (lower house of Congress). The bill now moves on to the Senate (upper house), which has already blocked one major element – doubling the US minimum wage to $15 an hour.
- In currency markets, sterling continued to strengthen versus global peers, including the US dollar. A weaker dollar tends to spell good news for riskier asset types like shares. For UK investors, a stronger sterling detracts from the performance of overseas holdings, as returns are translated into the more valuable home currency.

Weekly market moves

Global stock markets endured another weak few days, with emerging markets further lagging their developed world counterparts. Smaller companies in the UK were among the best relative performers.

Bond prices fell marginally over this seven-day window, though small moves masked significant turbulence throughout the week.

Gold and silver both fell, while oil and copper jumped higher.

What to look out for this week

The UK Budget will be unveiled on Wednesday. Last year, Chancellor Sunak cancelled the traditional 'Autumn statement' in favour of providing a near-term 'Winter Economy Plan'. This means that the new Budget could offer a first real glimpse into the government's longer-term plans to tackle the fallout of both the COVID-19 pandemic and the UK's post-transition relationship with the EU.

In the US, the American Recovery Bill will continue to make its way through Congress.

Market moves (as at 26 February 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,820.7	-1.7%	1.8%	1.0%
MSCI United Kingdom Mid Cap	1,246.5	-3.0%	0.4%	-0.2%
MSCI United Kingdom Small Cap	436.9	-0.3%	4.0%	2.7%
MSCI World (GBP)	2,043.7	-2.6%	0.8%	-0.7%
S&P 500 (GBP)	3,811.1	-2.2%	0.9%	-0.5%
MSCI Japan (GBP)	1,144.2	-4.2%	-0.3%	-1.7%
MSCI Europe ex-UK (GBP)	1,452.9	-2.0%	0.3%	-1.9%
MSCI Pacific ex-Japan (GBP)	1,659.7	-2.2%	1.1%	1.3%
MSCI Emerging Markets (GBP)	75,090.6	-6.1%	-1.0%	1.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,318.2	-1.5%	-5.8%	-7.5%
BoA Merrill Lynch Index-Linked Gilts	579.1	-0.1%	-5.1%	-8.0%
BoA Merrill Lynch £ Corporate	462.2	-1.1%	-3.2%	-4.2%
Commodities				
Oil (West Texas Intermediate, GBP)	$61.5	4.3%	15.8%	24.4%
Gold (GBP)	$1742.9	-2.2%	-8.2%	-9.7%
S&P / GSCI (GBP)	2,294.3	1.7%	8.6%	13.5%

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.

Important Information