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Asset Management

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Weekly Bulletin: Referendum pledge takes a backseat to COVID-19

Key takeaways

In a week when Scottish political leaders promised a referendum on independence, COVID-19 cases continued to surge in developing nations, and the latest round of US economic data fell short of expectations.

- Elections in Scotland held the headlines in the UK last week, with the Scottish National Party (SNP) winning 64 seats – the most since devolution, and its highest share of the vote. The SNP has promised a new referendum on Scottish independence in the first half of the next parliamentary term, but only once the COVID-19 crisis has been tackled. Given this focus on the pandemic, we believe the likelihood of an independence referendum in the very near-term remains unlikely, but the SNP has made a public commitment to push for a vote, despite the possibility of legal pushback from Westminster.
- In COVID-19 news, surging cases and virus-related mortality rates in Latin America and Asia continue to drive global figures. In the developed world, successful social restrictions and vaccine rollouts have led to better numbers. The divide between vaccine rollout programmes in advanced and developing economies continues to raise serious questions around moral failure. From a purely economic perspective, the strain of surging virus cases in emerging economies also has the potential to impact on global growth and trade.
- In the US, Treasury Secretary Janet Yellen made some pre-recorded comments for an interview, released last Tuesday, which suggested that interest rates could need to rise in the future, in order to balance out surging growth/inflation. Despite the relatively anodyne tone of the comments, markets fell in response seemingly spooked at the prospect of tighter monetary (central bank) policy. Although only a temporary reaction, it raises interesting questions about the dependence of financial market sentiment on central banks' commitment to remaining ultra-accommodative. Yellen later clarified that she was neither predicting nor recommending a move to higher interest rates. Policymakers at the Bank of England also confirmed their accommodative stance last week, leaving its key interest rates and bond purchase programme unchanged.
- At the end of the week, concerns about overheating economies were assuaged somewhat with the release of the latest US jobs report, which fell short of economists' expectations. The economy generated 266,000 new jobs in April, far below expectations for a gain of nearly one million. The latest manufacturing and service sector survey figures for April also came in below expectations. As economies recover from the initial impact of the pandemic, we should expect some volatility like this. Indeed, a little turbulence in economic data could help encourage central banks to remain supportive for longer.

Weekly market moves

Global stock markets enjoyed a positive week. Some performance divergence was in evidence between the share prices of larger versus smaller companies, and those of value-oriented versus growth-oriented businesses – in both instances, the former outperformed.

Bond prices (which move inversely to their yields) were quietly positive.

Commodities surged over the seven day period, driven by the anticipation of higher demand and the re-opening of economies.

What to look out for this week

Throughout the week, a range of economic data is due for release in the US. This includes figures on inflation, producer prices, retail sales and industrial production. Chinese inflation data – set to be released on Tuesday – could also prove interesting.

In the wake of mass spending announcements, US President Biden will hold a bipartisan meeting between the key figures in Congress, with the White House's economic proposals likely to be up for discussion.

Market moves (as at 7 May 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,000.1	2.5%	2.5%	12.2%
MSCI United Kingdom Mid Cap	1,373.3	1.1%	1.1%	10.9%
MSCI United Kingdom Small Cap	480.1	1.0%	1.0%	13.4%
MSCI World (GBP)	2,232.1	0.5%	0.5%	9.1%
S&P 500 (GBP)	4,232.6	0.3%	0.3%	10.7%
MSCI Japan (GBP)	1,179.3	1.4%	1.4%	0.3%
MSCI Europe ex-UK (GBP)	1,591.3	1.7%	1.7%	9.0%
MSCI Pacific ex-Japan (GBP)	1,755.3	1.0%	1.0%	8.7%
MSCI Emerging Markets (GBP)	75,113.7	-0.9%	-0.9%	2.7%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,333.7	0.6%	0.6%	-6.4%
BoA Merrill Lynch Index-Linked Gilts	600.7	0.9%	0.9%	-4.6%
BoA Merrill Lynch £ Corporate	466.6	0.4%	0.4%	-3.3%
Commodities				
Oil (West Texas Intermediate, GBP)	$64.8	1.1%	1.1%	31.1%
Gold (GBP)	$1836.6	2.9%	2.9%	-4.9%
S&P / GSCI (GBP)	2,511.6	2.4%	2.4%	24.2%

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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