

Weekly Bulletin: Stock markets begin 2021 in fine spirits

Key takeaways

Financial markets have entered 2021 in a buoyant mood, driven higher by vaccine rollouts, good economic data, and news of ongoing election success for Joe Biden's Democrats.

- A third COVID-19 vaccine (following the Pfizer BioNTech and Oxford/AstraZeneca editions) has now become available, with regulators across the globe approving the Moderna vaccine for use. As COVID-19 vaccination schemes roll out across the world, the speed of these programmes is likely to determine the pace of economic recovery in each individual nation.
- Among larger countries, the UK and US are leading the way in providing vaccinations to their populations. Their COVID-19 vaccination rollouts are being aided by the logistics already in place for delivering large scale vaccine programmes like the annual flu jab, which itself has high engagement among the most vulnerable communities.
- With the latest US election cycle now officially over, President-elect Joe Biden's Democrats have taken control of the White House, the Senate (upper house of Congress) and House of Representatives (lower house). However, Democrats in the Senate have many internal ideological divides, and it is likely that Chuck Schumer (the new Senate majority leader) will need to work with Senate Republicans as well.
- In the near term, financial markets appear excited about the prospect of additional US government stimulus, together with the possibility of an infrastructure bill. At some stage, though, the notion of paying the bill for the government's economic support programmes is likely to rear its head. Further, markets may not react well to Biden's current tax plans, which include higher corporation tax, and greater taxation for high earners.
- In a good week for economic data, the December survey data covering US manufacturing came in at its highest level since August 2018, and around the highs of the past 20 years. Against this backdrop, market expectations for inflation have been rising. This has pushed up bond yields (which move inversely to bond prices), with the US 10-year government bond yield rising above 1.1% for the first time since March 2020. For now, financial markets remain sanguine about the prospect of higher inflation; provided bond yields move up only incrementally, there is little for cause panic.

Weekly market moves

2021 has opened well for share prices, with large UK companies (i.e. those in the FTSE 100 index) and China's onshore stock market leading the way. The US stock market is also hitting new highs.

The oil price has risen to its highest level since last February, bolstered by news of supply cuts. The latter is seen as a pre-emptive strategy against any dampened demand caused by further global lockdowns.

Bond prices have fallen amid this pro-risk market mood, with bond yields rising.

What to look out for this week

President-elect Biden may reveal more about his economic plan in the run up to his inauguration next week.

The House of Representatives (lower house of Congress) will be presenting articles of impeachment against President Trump.

Corporate earnings reporting season begins again. Big banks will kick off this week by releasing their latest financial reports and outlooks.

Market moves (as at 8 January 2020)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,925.4	6.4%	6.4%	6.4%
MSCI United Kingdom Mid Cap	1,308.5	4.7%	4.7%	4.7%
MSCI United Kingdom Small Cap	438.9	3.0%	3.0%	3.0%
MSCI World (GBP)	2,057.3	3.0%	3.0%	3.0%
S&P 500 (GBP)	3,824.7	2.5%	2.5%	2.5%
MSCI Japan (GBP)	1,135.6	2.9%	2.9%	2.9%
MSCI Europe ex-UK (GBP)	1,467.8	3.2%	3.2%	3.2%
MSCI Pacific ex-Japan (GBP)	1,665.8	4.6%	4.6%	4.6%
MSCI Emerging Markets (GBP)	75,382.3	5.4%	5.4%	5.4%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,402.8	-1.6%	-1.6%	-1.6%
BoA Merrill Lynch Index-Linked Gilts	607.8	-3.5%	-3.5%	-3.5%
BoA Merrill Lynch £ Corporate	479.5	-0.6%	-0.6%	-0.6%
Commodities				
Oil (West Texas Intermediate, GBP)	\$52.7	9.7%	9.7%	9.7%
Gold (GBP)	\$1862.9	-0.8%	-0.8%	-0.8%
S&P / GSCI (GBP)	2,063.4	5.0%	5.0%	5.0%

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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