Close Brothers Asset Management

23 FEBRUARY 2021

Weekly Update
G7 does Zoom

CU AT THE SUPER-CYCLE?
Industrial metals get a boost

BORROWING BIG
Public finances take a beating

JOBS CATCH A CHILL
But it's not due to the weather

ZEW KNEW!
Analysts positive on Eurozone

A GOOD WEEK FOR
- Sterling, which appreciated against the US dollar, the euro and the yen.

- Oil, which climbed a further 0.8% higher in US dollar terms.

A BAD WEEK FOR
- Equities, which weakened broadly, with the exception of UK equities.

- Bonds, which broadly sold off also.

GEOPOLITICS
Leaders from the G7 group of countries met last week for a virtual summit, with Boris Johnson at the helm. The group agreed to pledge c. £5bn of funding towards the distribution of coronavirus vaccines in developing countries. While vaccine programmes are progressing rapidly in developed countries, including Israel and the UK, some people in poorer countries are unlikely to ever receive a vaccine under current plans. Slower inoculation programmes could allow the coronavirus to continue to mutate and circulate, remaining a threat to health. Prime Minister Johnson committed to donate the UK's surplus vaccine stocks to the UN-led Covax programme, which will distribute doses globally.

COMMODITIES
Surging commodity prices have raised speculation that natural resources may be entering a "super-cycle". Prices for industrial metals, including iron ore, copper and nickel have seen rapid gains. Prices have been boosted by the expectation of an industrial revival once the global economy exits social restrictions introduced as a result of the pandemic. In addition, governments are ramping up spending on infrastructure, especially green initiatives, all of which will require raw materials to construct. At the same time, supply of materials such as copper remains constrained, in part as a result of the pandemic, lending further support to prices.

UK ECONOMY
For the first time in a decade, the UK public finances recorded a deficit in January. This largely reflects high spending on policies designed to limit the impact of the pandemic, including the Coronavirus Jobs Retention Scheme. January usually leaves the Treasury with a surplus, as receipts are boosted by self-assessment income tax and corporation taxes. This year, this effect was outweighed, resulting in borrowing £18.4bn higher than in January 2020. High borrowing may persuade Chancellor Rishi Sunak to announce the withdrawal of pandemic support measures at the March budget, and perhaps introduce measures to find new sources of revenue.

US ECONOMY
This week's US jobs data disappointed, with an increase in initial jobless claims. Regular initial state claims for unemployment benefits rose by 13,000, while reported pandemic unemployment benefits also spiked, as the state of Ohio worked through its backlog. The US has experienced some severe weather in February, resulting in disruptions to power supply and business. However, this unemployment claims data refers to the week prior to when the storms hit. For now, US employment is rising and falling in line with local social restrictions and rapid progress in delivering vaccinations is likely to allow economic activity to resume.

EUROPEAN ECONOMY
Survey-based indicators of economic expectations last week hinted at a brighter outlook for the Eurozone economy. Analysts had expected the ZEW survey to decline slightly, but instead the survey printed a stronger reading. Unlike most industry or consumer surveys, the ZEW survey asks a panel of financial analysts about their expectations for the economy, meaning that the results can be more influenced by conditions in financial markets. Nonetheless, a rebound in services demand is expected in the spring, once social restrictions are eased.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	0.9%			3.5%			2.8%			-9.8%		
US	-1.9%	-0.8%	-1.2%	3.2%	5.6%	-2.4%	1.8%	4.6%	-2.8%	10.3%	19.8%	-9.4%
Europe	-1.3%	-0.2%	-1.1%	2.3%	4.7%	-2.4%	0.0%	3.5%	-3.6%	3.4%	-0.1%	3.5%
Japan	-1.7%	0.1%	-1.8%	3.8%	7.1%	-3.3%	2.3%	7.5%	-5.2%	15.5%	19.3%	-3.9%
Asia ex Japan	-0.8%	0.2%	-1.0%	5.1%	7.0%	-1.9%	8.4%	11.2%	-2.8%	25.2%	29.8%	-4.6%
EM	-1.1%	0.1%	-1.2%	5.1%	7.1%	-2.0%	7.9%	11.2%	-3.3%	22.0%	31.6%	-9.6%

FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Corporate and Government Bonds				
UK Gov	-1.9%	-4.4%	-6.1%	-0.7%
US Gov	-0.8%	-1.5%	-2.7%	2.9%
Europe Gov	-0.9%	-1.8%	-3.1%	11.6%
UK Index-Linked	-2.9%	-5.1%	-8.0%	-1.9%
UK Corporate	-1.2%	-2.2%	-3.3%	2.8%
UK High Yield	0.1%	0.8%	1.7%	5.1%
Currencies – Spot				
USD – GBP	-1.1%	-2.2%	-2.5%	-7.8%
EUR – GBP	-1.1%	-2.3%	-3.2%	3.4%
JPY – GBP	-1.6%	-2.9%	-4.4%	-2.6%

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.70%
10 Year Treasuries	1.37%
10 Year Bunds	-0.30%

COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Energy				
Brent	0.8%	12.6%	21.4%	6.4%
Precious Metals				
Gold	-2.2%	-3.4%	-6.0%	10.7%

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