Close Brothers Asset Management

Weekly Update
More PEPP in the ECB's step

JANUARY NOT-SO-BLUES
UK GDP better than expected

HIGH COST OF LIVING
Rents raise US inflation

CHEQUE OUT
ARPA cheques hit bank accounts

PRO-GROWTH CHINA
Supportive policy mix

A GOOD WEEK FOR

- Equities, which recovered broadly.
- European government bonds, which rose on supportive ECB news .

A BAD WEEK FOR

- Bonds in the UK and US, which weakened c. -0.6% in local terms
- The US dollar, which weakened c. -0.3% on a trade weighted basis

EU ECONOMY

Last week the European Central Bank announced plans to increase the rate of asset purchases in the second quarter, in a bid to keep financial conditions favourable. The Pandemic Emergency Purchase Programme (PEPP) is a QE-type facility, whereby European central banks purchase European bonds in order to keep the yield on European bonds low. The ECB's announcement is in response to a rise in European bond yields so far this year. In part, this is a spill over from the rise in US bond yields, but the outlook for European growth remains less favourable. European vaccination programmes are progressing more slowly than in the US, fiscal stimulus is less accommodative and the average unemployment rate is significantly higher. These factors combined make a period of stronger inflation in Europe less likely.

UK ECONOMY

The UK economy shrank by -2.9% in January, when lockdowns were in full swing. This is a stronger outcome than expected, suggesting that companies are adapting to social restrictions and finding ways to continue to do business. Note that the November lockdown, when schools remained open, resulted in a -2.3% decline. In April 2020, when the pandemic first hit and construction was also closed, GDP fell by -18.3%. This January's print was also boosted by government expenditure on "test and trace" and vaccination programmes, which now account for c. 2.5% of GDP. Elsewhere, trade data shows that UK exports to the EU fell by c. 40%, reflecting the unwinding of pre-Brexit stockpiling and the impact of new barriers to trade.

US INFLATION

With markets fixated on the chance that the US Federal Reserve will be forced to tighten monetary policy, US inflation data is the subject of almost forensic interest. February saw prices increase by 0.4%, or 1.7% on a year-on-year basis, an acceleration from January. Much of the increase was due to a large increase in motor fuel, due to higher oil prices, which is often transitory. The price of groceries also accelerated, though restaurant price inflation slowed, as reopening allows businesses to spread running costs across more customers. Rents are a large component of the core inflation basket and these edged higher, though this may not be a sustained trend. Inflation is likely to accelerate further but the Fed has emphasised that labour market tightness will be the trigger for higher interest rates.

US ECONOMY

Joe Biden's $1.9trn pandemic relief bill was passed into law last week. The American Rescue Plan Act (ARPA) extends a number of expiring support measures, including unemployment benefits, and also sees eligible households receive $1,400 cheques as early as this week. The package coincides with the US economy beginning to reopen, with Texas withdrawing all social restrictions on Monday, though cases in the state remain elevated. As restrictions are lifted, confidence may determine consumer behaviour. The US Centre for Disease Control released guidance for vaccinated individuals last week. The guidelines recommend that small gatherings are safe in a home setting, but still urge caution in public and avoiding inter-state travel.

CHINA ECONOMY

As China's National People's Congress draws to a close, investors are taking stock of new policy announcements and what they mean for the global economy. Overall, policies have been more pro-growth than many analysts expected. As well as committing to an "above 6 per cent" GDP growth target for 2021, the party agreed to add 11m to the urban workforce in 2021. Financial controls will also be less strict than expected – the budget deficit will remain above 3% of GDP in 2021 and bond issuance will be limited relatively modestly. Consumption and investment will also benefit from stimulus measures, with support likely for the auto sector.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	1.8%			4.5%			5.6%			30.9%		
US	2.1%	2.8%	-0.7%	3.3%	3.1%	0.2%	2.7%	4.8%	-2.0%	48.9%	64.2%	-15.3%
Europe	3.5%	3.9%	-0.4%	3.5%	4.4%	-1.0%	1.2%	5.6%	-4.4%	43.9%	48.6%	-4.7%
Japan	1.4%	2.8%	-1.4%	1.9%	4.1%	-2.2%	0.3%	8.0%	-7.7%	31.7%	49.8%	-18.1%
Asia ex Japan	-0.4%	0.4%	-0.8%	0.3%	0.5%	-0.1%	3.1%	5.9%	-2.8%	40.7%	46.9%	-6.3%
EM	0.0%	0.6%	-0.6%	0.9%	1.0%	-0.1%	2.6%	5.9%	-3.3%	41.4%	52.1%	-10.7%

FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Corporate and Government Bonds				
UK Gov	-0.7%	0.2%	-7.3%	-7.0%
US Gov	-0.6%	-1.0%	-4.4%	-3.6%
Europe Gov	0.3%	-1.2%	-4.9%	7.3%
UK Index-Linked	-0.1%	1.4%	-6.7%	-2.2%
UK Corporate	-0.6%	-0.2%	-4.5%	4.5%
UK High Yield	0.2%	0.2%	1.6%	13.0%
Currencies – Spot				
USD – GBP	-0.6%	0.0%	-1.8%	-9.7%
EUR – GBP	-0.3%	-0.9%	-3.9%	-3.5%
JPY – GBP	-1.2%	-2.2%	-7.0%	-13.4%

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.82%
10 Year Treasuries	1.62%
10 Year Bunds	-0.32%

COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Energy				
Brent	-0.2%	4.7%	33.6%	108.4%
Precious Metals				
Gold	1.6%	-0.4%	-9.0%	9.6%

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