

Weekly Update

Suez setback

REMEMBER BREXIT?

Financial Services regulation under review

GREEN SHOOTS FOR EMPLOYMENT GROWTH

But how much spare capacity?

SPRING INTO SPRING

PMIs recover

THE COTTON DILEMMA

Brands must decide

A GOOD WEEK FOR

- US equities, which gained over 2% in GBP terms.
- Bonds, which mostly regained ground. Gilts rose over 1%.

A BAD WEEK FOR

- Japanese and emerging market equities, which weakened c. 1.5%.
- Gold weakened modestly, hindered by dollar strength.

GLOBAL TRADE

A container ship becoming lodged athwart the Suez Canal provided news outlets with respite from the pandemic. The Ever Given, owned by Japanese firm Evergreen, had blocked the canal for a week before being freed on Monday, with traffic resuming shortly thereafter. The arterial route facilitates ca. \$9bn in global trade daily between Europe and Asia. Whilst the hiatus in shipping may disrupt trade for several weeks, it is not expected to impact global growth materially. It does, however, highlight the fragility of global supply chains and the narrow margin of error of just-in-time procurement. It may also push up shipping costs.

BREXIT

On Friday, the UK and EU announced the agreement of a memorandum of understanding (MoU) regarding financial services regulations. The MoU sets out how both sides will cooperate in discussions over whether the EU deems the UK's regulatory standards to be at least equivalent to those of the bloc. This process is likely to take 18 months or longer. Equivalence would allow UK firms to operate in the EU by demonstrating that they are abiding by UK regulations (perhaps supplemented on occasion with specific local permissions) instead of having to abide by regulations and local consent on a country-by-country basis. Equivalence is likely to be decided on each area of financial services separately. This may offer more stability than the trade deal as currently breaches in one area impact agreements in others. However, given that a change of circumstance may trigger a review of any equivalence granted, rather than a change in regulations, there is a subtle possibility that equivalence becomes a political decision.

UK ECONOMY

UK unemployment data for January painted a rosier picture, unexpectedly falling slightly to 5%. HMRC data also indicated that payroll employees grew slightly in February. The extension of the Coronavirus Job Retention Scheme (or furlough scheme) until September is expected to keep a lid on unemployment through the summer, though job losses are expected to rise once the scheme ends. Nonetheless, MPC member Michael Saunders commented that higher UK unemployment in 2021 may not necessarily contribute to lifting structural unemployment, which determines the economy's potential growth rate. Higher potential growth may therefore mean more spare capacity within the economy, limiting inflationary pressures, and reducing the likelihood that the Bank of England would need to act to calm inflation.

GLOBAL ECONOMY

March PMI data pointed to improvement across manufacturing and services sectors across the main markets. Manufacturing indices surged higher in France and Germany especially, while services indicators climbed above 50 – signalling expansion - in the UK. While services indicators ameliorated in the Eurozone, the subsequent announcement of renewed social restrictions is likely to weigh on the sector.

CHINA DIPLOMACY

China's government is hitting back at foreign brands boycotting Xinjiang cotton over human rights abuses. China produces 22% of the world's cotton, of which 84% comes from Xinjiang. Firms under fire include members of the Better Cotton Initiative sustainability programme, which alleges there is an increased risk of forced labour in Xinjiang. As well as government criticism, some Chinese spokes-models are abandoning brands including Nike and Converse. The denunciation comes days after the US, EU, UK and Canada announced sanctions against Chinese officials over suspected human rights abuses in Xinjiang. Brands may soon be forced to make a political decision between Chinese and overseas customers.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	0.7%			4.5%			5.6%			17.4%		
US	2.0%	1.4%	0.6%	4.8%	3.7%	1.1%	4.2%	5.3%	-1.1%	37.1%	55.7%	-18.6%
Europe	0.5%	0.9%	-0.4%	4.3%	5.7%	-1.4%	2.0%	6.9%	-4.9%	28.8%	36.7%	-8.0%
Japan	-1.4%	-1.4%	0.0%	3.6%	5.4%	-1.8%	2.0%	9.3%	-7.4%	28.1%	45.6%	-17.5%
Asia ex Japan	-1.0%	-1.3%	0.3%	-1.2%	-1.6%	0.4%	1.5%	3.7%	-2.2%	40.5%	50.0%	-9.5%
EM	-1.5%	-1.7%	0.1%	-1.1%	-1.6%	0.4%	0.5%	3.2%	-2.7%	38.1%	52.0%	-13.9%

FIXED INTEREST AND CURRENCIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Corporate and Government Bonds												
UK Gov	1.1%			1.2%			-6.3%			-4.9%		
US Gov	0.5%			-0.8%			-4.2%			-4.2%		
Europe Gov	-0.3%			-1.8%			-5.5%			9.2%		
UK Index-Linked	1.7%			3.8%			-4.5%			1.8%		
UK Corporate	0.9%			0.3%			-4.0%			12.0%		
UK High Yield	0.2%			0.2%			1.5%			23.3%		
Currencies – Spot												
USD – GBP	0.6%			1.0%			-0.9%			-11.5%		
EUR – GBP	-0.4%			-1.4%			-4.3%			-5.4%		
JPY – GBP	-0.1%			-1.8%			-6.6%			-11.5%		

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.76%
10 Year Treasuries	1.66%
10 Year Bunds	-0.34%

COMMODITIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Energy												
Brent	0.1%			-2.4%			24.7%			145.1%		
Precious Metals												
Gold	-0.7%			-0.1%			-8.7%			6.2%		

IMPORTANT INFORMATION

MSCI: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

The information contained in this document is believed to be correct but cannot be guaranteed. Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise and is not guaranteed. An investor may not get back the original amount invested. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation. Where links to third party websites are provided, Close Brothers Asset Management accepts no responsibility for the content of such websites nor the services, products or items offered through such websites.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of the Close Brothers Group plc group of companies, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86.

CBAM6252. 31.03.2021.