

Weekly Update

Fiscal frenzy

SUPER SPRING

US GDP surges

GO "LARGELY"

Fed speak frustrates

DOUBLE DIP

Eurozone GDP swoons

BRUSSELS BACKS

BREXIT

TCA gets a tick

A GOOD WEEK FOR

- Oil, which rallied c. +2% in US dollar terms.
- UK equities, which were the best performing equity region in GBP terms.

A BAD WEEK FOR

- Bonds, with UK, European and US government bonds declining in local terms.
- Japan equities, which dropped c -2% in GBO terms.

US FISCAL POLICY

Last week US President Joe Biden unveiled details of a second long-term spending bill aimed at redistributing the nation's wealth and lifting millions of Americans out of poverty. The \$1.8trn American Families Plan follows hot on the heels of the American Jobs Plan, itself worth over \$2trn. The package includes \$200bn to fund universal pre-kindergarten and over \$100bn for community colleges. Child tax credits would also be extended and \$225bn committed to establishing the country's first national paid family and medical leave program. To fund it, Biden is proposing tax hikes for the wealthiest Americans, along with tightening the enforcement of tax policy. Republicans have already voiced objections to spending in excess of \$4trn, and which would see a much bigger role in perpetuity for the state.

US ECONOMY

GDP data last week revealed that the US economy expanded by an annualised rate 6.4% in Q1. Although slower than some analysts had expected, the expansion accelerated from the end of last year and was a much stronger rate of growth than other developed market economies reported. Consumption expenditure and fixed investment spending were strong contributors, and are likely to accelerate further once social restrictions ease and company confidence recovers. Meanwhile, exports swooned, and trade data is likely to worsen as the US economy accelerates, leading to higher imports.

US MONETARY POLICY

Fed officials left monetary policy and guidance unchanged at the April meeting, delivering a more dovish outcome than analysts had anticipated. The Federal Open Markets Committee statement did note improving activity and employment, including in pandemic-impacted sectors, supported by vaccinations and policy response. However, Chair Powell reiterated repeatedly that the data does not yet meet the Fed's criteria for "further substantial progress" to consider tapering and likely would not for some time. Market watchers fixated on just one word: Powell's concession that recent increases in inflation were only "largely" due to base effects and temporary bottleneck pressures. Fed forecasts anticipate employment improvements to lag economic activity, with disadvantaged economic groups likely to benefit later still.

EUROZONE ECONOMY

The Eurozone economy contracted by -0.6% in the first quarter this year (on a quarter-on-quarter basis), a better outcome than analysts had expected, but confirming a double dip recession. Even though mobility restrictions remained tight across the region for much of the quarter, businesses appear to be adapting to new ways of working, supporting growth. France especially enjoyed stronger than expected consumption and investment spending, while Germany was weaker than expected. Looking ahead, progress on a joined-up health policy will be crucial if southern European nations are to benefit from a summer tourism season.

BREXIT

Remember Brexit? The European Parliament last week voted on the Trade and Cooperation Agreement agreed at the end of 2020. The Parliament voted in favour of ratification by 660 to five, with 32 abstentions. This does not mean negotiations are over. The TCA is a mixed agreement, with several components that must be renegotiated at regular intervals. The UK and EU are also in discussions over how the EU will view UK financial services regulation, a process likely to last over a year.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	0.6%			4.0%			9.4%			20.8%		
US	0.1%	-0.1%	0.2%	5.2%	5.4%	-0.2%	9.6%	11.1%	-1.4%	34.4%	47.8%	-13.3%
Europe	-0.8%	-0.6%	-0.2%	4.3%	2.1%	2.2%	6.8%	10.0%	-3.2%	33.2%	33.1%	0.1%
Japan	-1.8%	-0.9%	-0.9%	-1.7%	-2.6%	0.9%	-1.3%	5.9%	-7.2%	18.8%	33.5%	-14.7%
Asia ex Japan	-0.1%	-0.6%	0.5%	2.6%	2.1%	0.5%	4.3%	6.2%	-1.9%	35.1%	41.2%	-6.0%
EM	-0.2%	-0.6%	0.5%	2.3%	1.6%	0.7%	3.5%	5.6%	-2.2%	35.3%	42.9%	-7.6%

FIXED INTEREST AND CURRENCIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Corporate and Government Bonds												
UK Gov	-0.8%			0.6%			-7.0%			-8.1%		
US Gov	-0.3%			0.8%			-3.8%			-4.7%		
Europe Gov	-0.7%			1.3%			-5.1%			8.6%		
UK Index-Linked	-0.5%			0.9%			-5.5%			-1.5%		
UK Corporate	-0.5%			0.8%			-3.9%			4.1%		
UK High Yield	0.1%			0.8%			2.4%			18.4%		
Currencies – Spot												
USD – GBP	0.4%			-0.2%			-1.1%			-8.8%		
EUR – GBP	-0.2%			2.2%			-2.6%			0.0%		
JPY – GBP	-0.9%			1.0%			-6.5%			-10.6%		

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.83%
10 Year Treasuries	1.61%
10 Year Bunds	-0.21%

COMMODITIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Energy												
Brent	1.7%			5.8%			29.8%			166.1%		
Precious Metals												
Gold	-0.5%			3.6%			-6.8%			4.9%		

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