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Global Economic Update – 21st January 2021

Globally, the largest vaccination campaign in history is well under way, with over 46 million doses now administered across 51 countries, and an average of 2.35 million doses being administered daily. The Pfizer-BioNTech vaccine has now been cleared for use across North America, Europe and the Middle East, while the Oxford AstraZeneca vaccine has gained its first major authorisation by the UK. There remain several logistical hurdles in rolling out the vaccine on a larger scale, but swift progress is boosting hopes for economic and social activity to begin to return to normal in H2 2021. However, the accelerated vaccine program continues to battle against increasing cases in many key economies around the world.

According to the latest data from the World bank, global activity is forecast to expand around 4% in 2021. This is below previous expectations as a sharp resurgence in virus cases and lockdowns toward the end of 2020 weakened the outlook, but growth is expected to accelerate through the year as pandemic-related disruptions fade, and vaccinations pick up.

In the UK, inflation picked up towards the end of 2020, as shops and restaurants re-opened between lockdowns, but remained well below the Bank of England 2% target. Consumer prices rose 0.6% from a year earlier, up from 0.3% the previous month, downward pressure came from transport, clothing, recreation, and tobacco and alcohol. Looking ahead, it is likely that the spring will see a sharp rebound in the inflation rate as a sales-tax cut for hospitality venues expires, and lockdown restrictions begin easing more permanently with the help of the vaccine.

Foreign minister Dominic Raab said he remained hopeful of some easing in lockdown restrictions in March as the country's rollout of Covid-19 vaccines has been the fastest in Europe. More than 4 million people, including over-80s, care home residents, and NHS and social care staff, have already received their first dose, and from this week it will be rolled out to the next two priority groups – the over 70's and the clinically extremely vulnerable. Meanwhile, economists now predict that the UK will enter a double-dip recession, as they are almost certain that the UK economy will shrink in the first quarter of 2021, although the outlook from there brightens, as the impact of vaccinations should begin to feed into the virus data.

In Europe, the European Commission called on member states to accelerate the roll-out of vaccination across the bloc, saying they should aim to vaccinate at least 80% of health care workers and citizens over the age of 80 by March, and at least 70 percent of their whole populations by this summer. Meanwhile, concerns about the negative impact of restrictive measures on the bloc's economic recovery have risen as Chancellor Angela Merkel and state governors announced an extension and tightening of Germany's current lockdown.

The accounts of the European Central Bank's December meeting showed that all policymakers agreed that the recent expansion and extension of Pandemic Emergency Purchase Programme (PEPP) and the recalibration of the longer-term refinancing operations remain the most suitable tools to ensure that financing conditions remain favourable throughout the pandemic. However, there were a number of officials calling for a more moderate increase. In December, the ECB expanded its pandemic emergency purchase programme by another €500 billion and extended it to at least the end of March 2022, aiming to support the Eurozone's struggling economy amid the coronavirus crisis.

In the US, President-elect Joe Biden's inauguration took place this week where he was sworn in as the 46th US president. We will be watching closely for more details on the $1.9 trillion stimulus plan and any changes in policy.

Biden immediately began unwinding President Donald Trump's policies on immigration, climate and other issues on Wednesday with at least 15 executive actions, including moves to reverse US withdrawals from the Paris Agreement and the World Health Organization, and stop construction of a border wall.

Janet Yellen's nomination for Treasury secretary could be approved by the Senate as soon as Thursday, making her America's first female treasury secretary. Both Republicans and Democrats have indicated they will approve Yellen's nomination. Meanwhile, a list of final pardons and commutations the White House released this week does not include the president himself, despite speculation that it would.

In Emerging Markets, policymakers' firm deployment of prudent monetary policies have enabled their economies to pass an incredibly severe stress test better than many thought possible, with most having achieved remarkable stability in money and credit growth during 2020. The outlook continues to vary with the prevalence of Covid-19, but unlike most developed economies, EM countries don't appear to be experiencing a severe second wave of the pandemic.

Barometers

The Barometers below look at some of the data we review on a day by day basis and by having these detailed, it gives you some insight into what is happening.

US Earnings are important because if the US starts to slow down, then so does the rest of the world.

For Q4 2020, the estimated earnings decline for the S&P 500 is -6.8%. If -6.8% is the actual decline for the quarter, it will mark the fourth-largest (year-over-year) decline in earnings reported by the index since Q3 2009. On September 30, the estimated earnings decline for Q4 2020 was -12.7%. Seven sectors have smaller earnings declines or higher earnings growth rates today (compared to September 30) due to upward revisions to EPS estimates and positive EPS surprises. For Q4 2020, 29 S&P 500 companies have issued negative EPS guidance and 56 S&P 500 companies have issued positive EPS guidance. The forward 12-month P/E ratio for the S&P 500 is 22.4. This P/E ratio is above the 5-year average (17.5) and above the 10-year average (15.7).

Money Flows;

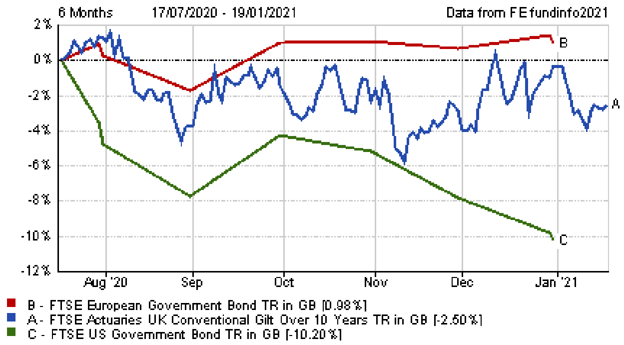
By calculating money flows, we can analyse investors' perceptions on the markets and quantify whether they were positive or negative. A positive money flow is when a stock is purchased at a higher price, or an uptick and vice versa. This indication will give us a sign as to where we are on the economic cycle. To be able to quantify this, we have looked at the Money Flow Index (MFI) which is a momentum indicator that measures the strength of money entering or leaving a market. The MFI adds volume to the Relative Strength Index (RSI) and is also commonly referred to as the volume-weighted RSI. An MFI of over 80 suggests that the security in question is overbought and under 20 indicates that it is oversold (over the past week).

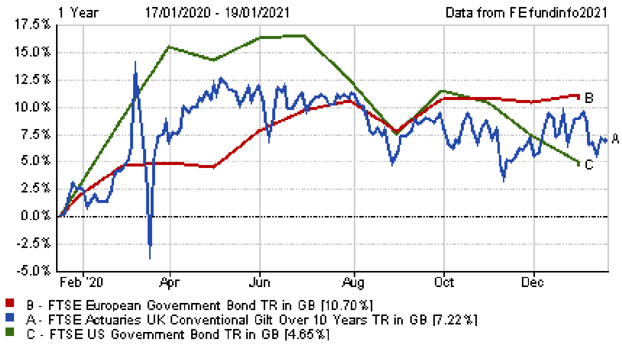
In comparison to last week's MFI data, net money inflows into global equities decreased as markets cooled and investors digested the latest virus data. Overall, we are starting to see flows returning after a challenging period, with institutional investors returning to markets.

MFI.FTSE	FTSE 100	= 62.008	Previously 75.710 (Decrease)
MFI.INX	S&P 500	= 60.473	Previously 71.949 (Decrease)
MFI.STOXX	Euro STOXX 600	= 69.009	Previously 75.700 (Decrease)

UK & Non-UK Government Bonds;

UK and Non-UK Government Debt are a good measure, as they indicate whether we expect the economy to improve or worsen, with rising yields reflecting positive environment and reflecting positive interest rate movements as we look out. The opposite with lowering yields as the expectation is worsening economic conditions.





Over the week, global government bond yields continued their upward trajectory in anticipation of more fiscal spending, particularly in the US. Overall, we expect to see an increasing trend in government bond yields as the global economy recovers given current historically low yields.

US 10-2 Year Treasury Spread

The 10-year/2-year spread refers to the divergence between the 10-year US Treasury bond and the 2-year Treasury note. In normal economic circumstances, the yield on the 10-year should be greater than the 2-year, creating a positive spread. This signals some combination of positive future growth expectations, positive future inflation expectations, and basic recognition that more adverse economic events are likelier to transpire over a longer timeframe than a shorter timeframe. Therefore, investors are compensated for taking on the higher risk of longer-duration bonds in the form of higher yields.

The spread between the 10-2 Year US Treasury yield widened this week, reaching the steepest levels since 2016 as investors are increasingly expecting economic expansion and high inflation. Overall, the yield curve has steepened in recent months as the market is more optimistic about the future of the US economy and is signalling that the worst may soon be behind us. This trend is expected to continue as the economy recovers from the coronavirus.

GBP to USD/Euro/JPY;

We monitor the GBP rate to see how much of the returns are coming from underlying equity valuation increases and movements in the currency, to see if we should be locking in the gains and hedging the risks. The 12-month expected range we have set below for sterling across the US Dollar, Euro and Japanese Yen is given the current economic *climate and it is to reflect a more positive stance on Sterling in the near short term. Despite Brexit, the UK economy is quite resilient in showing optimism. It is inevitable that over the long term, as Brexit matures, Sterling will be more volatile and unpredictable, therefore it could potentially weaken further as the negotiations mature.*

Sterling gained over the week adding to recent strong performance as economic data showed the UK inflation rate rose more than expected in December. Whereas the dollar remained under pressure after US President-elect Joe Biden's nominee for Treasury Secretary, Janet Yellen, argued that the US government should spend heavily to help the world's largest economy to recover from the pandemic crisis. The Euro also extended gains this week, helped by broad dollar weakness and an accelerating vaccination programme.

GBP / USD	–	Range 1.40 – 1.22	–	Today at 1.3670
GBP / EUR	–	Range 1.20 – 1.06	–	Today at 1.1302
GBP / JPY	–	Range 150 – 125	–	Today at 141.909
DXY (Spot USD)			–	Today at 90.475

Oil Price;

We monitor the oil price as it is a strong indicator of global consumption when balancing the output and inventory data. Strong supply and usage denote a strong global economy. Opposite reflects underlying weaknesses.

Oil prices were steady over the week, holding onto gains from the production cut announced last week. Overall, geopolitical tensions and recessionary concerns continue to weigh on prices, and the oil outlook remains weak. Brent crude is currently trading at $56.30, up 0.14% in comparison to the previous week's price and WTI crude is trading at $53.52, up 0.98% from last week.

Gold Price;

Gold is a safe haven and a spike in price can be an indicator of increasing underlying economic concerns and as always, the opposite.

The price of gold gained 0.3% over the week and is currently trading at $1864 per troy ounce, recovering from a sharp fall in recent days on expectations of large stimulus measures. Overall, gold continues to be relatively well supported around current levels in the short term by cautious investors as geopolitical tensions weigh on sentiment amid an uncertain global economic outlook.

Should you have any questions on any of the information contained in this document, please don't hesitate to get in touch.

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