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Global Economic Update – 25th March 2021

Globally, the largest vaccination campaign in history is well under way, with over 468 million doses now administered across 135 countries, and an average of 11.3 million doses being administered daily. After Europe unilaterally suspended AstraZeneca's vaccine on blood clot concerns, the bloc's medicine regulator approved AstraZeneca's vaccine this week, despite some uncertainty remaining about its trial data from the FDA's analysis in the US. The impact of the suspension has resulted in less individuals being inoculated in Europe, whilst also contributing to vaccination scepticism in regions such as France. Although the re-approval of the vaccine will support Europe's vaccination efforts, the EU's latest stance means the bloc could continue to suspend vaccination exports based on a select criteria, providing further uncertainty over the next few weeks. Elsewhere, the swift progress being made in many developed countries is boosting hopes for economic and social activity to begin to return to normal in H2 2021.

The US's $1.9 trillion stimulus plan is not just boosting the US economy, it is also expected to help economies around the world. The OECD has issued huge upgrades for 2021 in its latest forecasts, in part due to spill overs from the stimulus package. Its North American neighbours Canada and Mexico profit the most, but even China and the euro area will gain, according to the OECD's latest economic projections. Overall, the measures are expected to raise global output by more than 1% in the first full year of the package. Secretary of the treasury Janet Yellen and Fed chairman Jerome Powell have subsequently been testifying before a Senate panel this week, facing a number of questions about how they plan to recoup the funds that have been spent in the substantial stimulus package.

In the UK, investors and economists now expect a quicker economic recovery due to the success of the vaccination programme, coupled with a continuation of supportive monetary and fiscal policy. In January, UK monthly GDP contracted less than initially forecasted, while exports and imports plunged. Despite inflation fears being present in markets, the UK inflation rate stood at 0.4% y/y in February, less than the 0.8% forecasted.

For March, the UK's composite flash PMI currently stands at 56.6, up sharply from 49.6 in February and above the 51.1 that was forecasted. The latest reading signalled a strong rate of private sector output growth, with the speed of recovery being the fastest since August 2020. Sales have rebounded ahead of the easing of lockdown restriction measures, and the UK's outperformance in its vaccination distribution has supported consumer confidence. This improving outlook has been further supported by the latest employment data which has the UK's unemployment rate standing at 5% for the three months to January, below market forecasts of 5.2%.

In Europe, the ECB kept key interest rates at their record low levels at their March meeting and have confirmed that they expect to increase the pace of their asset purchases under the Pandemic Emergency Purchase Programme. The action is in response to the "unwarranted tightening" caused by the rising government debt yields that posed a threat to the bloc's recovery. Yields fell on the news and the ongoing programme should keep them suppressed for the time being, keeping borrowing rates low and thus supporting the European economic recovery.

The pace of vaccinations in Europe is hampering the economic recovery prospects in the bloc, with estimates now showing that Europe could lag the US and UK by as much as a quarter in terms of economic activity. That being said, Europe's PMI data for March appears to be turning out better than expected. The flash composite PMI rate for March came in at 52.5 this week, entering the expansion phase from last month's figure of 48.8, and above forecasts of 49.4. Additionally, consumer confidence came in better than expected for March, despite the slack vaccine distribution efforts.

In the US, the Fed's policymakers pledged not to hike interest rates until at least through 2023 while raising GDP growth and inflation forecasts at last week's meeting. The Fed reiterated any spike in inflation is likely to be temporary.

Weaker than expected US consumer prices eased concerns about broader inflationary pressures last week and treasury yields have continued their gradual downward trend over the past few days, helping buoy markets after a challenging few weeks. Meanwhile, the Economic Optimism Index in the US rose 3.5 points to 55.4 in March of 2021, the highest since February 2020 before the Covid-19 shutdown. The six-month outlook for the US economy picked up to 53.2 from 49.5, returning to positive territory for the first time since October 2020. Furthermore, the flash composite PMI measure came in slightly below expectations.

In Emerging Markets, although the pace of vaccinations may be behind that of developed markets, we still expect to see a strong economic recovery in 2021, aided by a strong cyclical rebound and a weaker dollar environment. On the policy front, deployment of prudent monetary policy has enabled EM 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. After the outperformance of Asian equities in the last six months, investor profit taking and regulatory discussions have impacted share prices in the region.

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 Q1 2021, the estimated earnings growth rate for the S&P 500 is 22.6%. If 22.6% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth rate reported by the index since Q3 2018 (26.1%). On December 31, the estimated earnings growth rate for Q1 2021 was 15.5%. Eight sectors have higher earnings growth rates or smaller earnings declines today (compared to December 31) due to upward revisions to EPS estimates. For Q1 2021, 34 S&P 500 companies have issued negative EPS guidance and 61 S&P 500 companies have issued positive EPS guidance. The forward 12-month P/E ratio for the S&P 500 is 21.7. This P/E ratio is above the 5-year average (17.8) and above the 10-year average (15.9).

Money Flows;

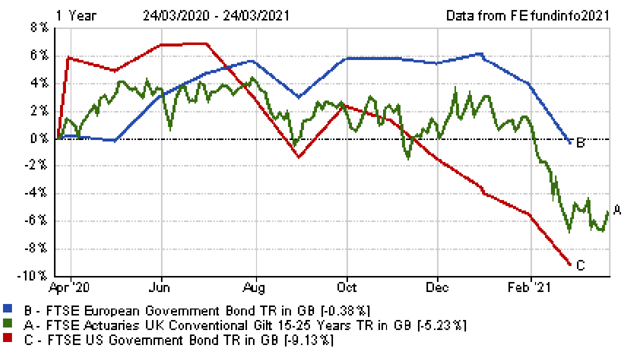
By calculating money flows, we can analyse investors' perceptions on the markets and quantify whether they were positive or negative. A positive money flow is when a stock is purchased at a higher price, or an uptick and vice versa. This indication will give us a sign as to where we are on the economic 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 volumes from retail traders fall while discussions about a rise in corporate tax rates in the US become more frequent. Overall, we are starting to see flows returning after a challenging period, with institutional investors returning to markets as fundamentals improve.

MFI.FTSE	FTSE 100	= 42.679	Previously 63.518 (Decrease)
MFI.INX	S&P 500	= 55.599	Previously 56.480 (Decrease)
MFI.STOXX	Euro STOXX 600	= 51.753	Previously 66.015 (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 moved lower as the latest inflation figures showed that current inflationary pressures are lower than expected. Overall, we expect to see a gradual and increasing trend in government bond yields as the global economy recovers given the historically low yields seen in 2020.

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 has narrowed over the week as moves in yields at the long end of the curve have fallen after the acceleration in yields over the past month. 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 has edged slightly lower this week against its major currency partners after a bullish run on an improving economic outlook. The US dollar moved higher in recent weeks amid a rise in treasury yields, while its rise has also been supported by risk aversion amongst investors in light of the rise in coronavirus cases in Europe.

GBP / USD	–	Range 1.40 – 1.22	–	Today at 1.3717
GBP / EUR	–	Range 1.20 – 1.06	–	Today at 1.1610
GBP / JPY	–	Range 150 – 125	–	Today at 149.653
DXY (Spot USD)			–	Today at 92.573

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 have pulled back from their recent highs after vaccine rollouts and output cuts induced a strong rally over the past few weeks. Overall, geopolitical tensions and accelerating shift away from fossil fuels continue to weigh on the long-term outlook. Brent crude is currently trading at $63.243, down 1.17% in comparison to the previous week's price and WTI crude is trading at $61.03, down 1.155% 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 rose by 0.5% over the week and is currently trading at $1732.74 per troy ounce as a result of rising uncertainties over the past week. Overall, gold remains relatively well supported in the short term by cautious investors given current economic weakness, however, longer term we expect the asset to continue its recent decreasing trend.

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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