A Month in the Markets

APRIL 2021

In this latest edition our Head of Multi-Asset Solutions UK Stefano Amato looks at how key themes impacted markets in March: COVID-19 vaccination rates, the possibility of economies reopening later in the year and concerns over inflation rising.

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Head of Multi-Asset Solutions UK

Market Overview

Global stock markets delivered mostly positive returns in March, particularly in developed markets such as the UK, US, Japan and Europe, although China and the emerging markets were mostly negative. Once again, the biggest driver in financial markets was COVID-19, as investors paid close attention to vaccination rates around the world and the possibility of economies reopening later in the year. The possibility of a third wave of infections in some regions also weighed on investors.

At the beginning of March, markets started to rebound from a period of heightened volatility that caused shares in technology companies to fall sharply. The prospect of reopening economies later this year raised concerns that inflation may also rise. This prompted investors to anticipate that interest rates may rise in response to higher inflation, causing bond prices to fall. Shares in the technology sector also sold off, given that these companies' valuations are affected by interest rate movements.

US

The US economy continued to improve despite concerns about an overall increase in infections in March. With a vaccine rollout that has been among the most successful in the world, there was a noticeable increase in economic activity over the month. Restaurants have begun to re-open, retail sales have improved and air travel started to rebound. The labour market also improved, as the number of people filing for new unemployment claims fell to a one-year low. Even so, overall unemployment remains high with nearly 19 million people out of work.

President Joe Biden signed the $1.9tn relief package into law at the beginning of the month, paving the way for direct payments of $1,400 to most Americans and support for businesses. Despite investor concerns that inflation may rise as the economy opens up, the Federal Reserve signalled that it would not raise interest rates and will remain supportive of financial markets.

Europe and the UK

Economic data suggests that the UK economy may perform better than expected in March, despite three months of lockdown restrictions designed to bring down COVID-19 infection rates. Both the services and manufacturing sectors saw an increase in activity over the month, with the rate of expansion being the highest for seven months. Meanwhile, consumer confidence reached its highest level in the UK since the onset of the pandemic in 2020. The key driver of this positive sentiment was the UK's successful vaccine rollout, which saw more than 30 million people receive their first injection by the end of the month, falling infection rates, and an extension of fiscal support for those financially impacted by the pandemic.

While business activity across the Eurozone returned to growth in March for the first time since September 2020, it was uneven. The manufacturing sector continued to see expansion, but the services sector – which consists of restaurants and retail businesses – contracted once again. In contrast to the UK, the European Union's vaccination rate remained low and lawmakers threatened to limit vaccine exports from the trade bloc.

Asia and Emerging Markets

China's economy continued to show signs of recovery as manufacturing output accelerated in March following a brief break over the Lunar New Year in February. The country's manufacturing sector has been affected by disruption caused by COVID-19 earlier in the year, but has more recently received a boost from new orders and rising exports. The news was somewhat more mixed for Japan, which saw increased manufacturing activity over the month, but the services sector continued to contract. Japan's economy is heavily reliant on global trade, so increased output and new orders for the manufacturing and export sector reflect the prospects of a global economic recovery.

Outlook

We continue to have a positive outlook for economies and financial markets given that vaccine programmes are ramping up around the world. While there are concerns about a third wave of the pandemic in some regions of the world, our view is that widespread vaccination will bring down COVID-19 infection rates and allow economies to begin re-opening. In the meantime, supportive statements from central banks in the US, UK and Europe should be positive for stock markets.

Risks remain, of course. Any setbacks to the vaccination process could trigger another series of prolonged lockdowns, which could have a negative impact on economies and stock markets. As ever, we will continue to monitor ongoing developments and adjust our asset allocation to suit economic and market conditions.

Data as at 1 April 2021.

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