

A month in the markets



Private
Banking

By John Mullins

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Month of February

Market Review

It was a somewhat bumpy period for investors in February as Bond markets fell in the second half of the month. Despite concerns about new COVID-19 variants spreading rapidly around the world, there was evidence that vaccination programmes were starting to reduce hospitalisations. This raised hopes that economies may begin to reopen later in the year, which would likely spur economic growth.

Investors anticipated that such growth could cause inflation and interest rates to rise. This, in turn, had a negative effect on Bonds and technology companies, which are sensitive to higher rates. Notwithstanding the sell-off in the final week, global stock markets on average still managed to deliver small positive returns for the month.

UK and Europe

Economic activity in the UK and Europe continued to suffer during the month as lockdown restrictions took their toll. In the UK, the Office for National Statistics reported that the unemployment rate increased to 5.1% in the final three months of 2020, the highest level in nearly five years. The services sector, which includes restaurants and customer-facing retail businesses, saw a further decline in activity as shops remained closed. The manufacturing sector was in better shape, although supply chain disruptions caused by lockdowns and post-Brexit shipping delays dampened growth slightly. There was good news as the vaccination rollout progressed, with more than 20 million people having received their first dose by the end of February.

In Europe, there were concerns about the limited rollout of vaccines and the slow implementation of its COVID-19 financial relief programme. Activity in the services sector fell at its fastest rate since November – its second-steepest decline since the spring 2020 lockdown. The manufacturing sector fared better, with output rising at its highest pace since October 2020. A major driver of this growth came from Germany's construction and manufacturing companies, which recorded strong demand.

PLEASE REMEMBER THAT ALL INVESTMENTS CARRY VARYING DEGREES OF RISK TO YOUR MONEY. THE VALUE OF INVESTMENTS AND ANY INCOME FROM THEM CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN THE FULL AMOUNT YOU INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS.

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US

The US faced many of the same challenges as other developed countries with the pandemic continuing through the winter months, while vaccinations were being rolled out across the country. The jobless rate remains at historically high levels, with more than 700,000 people applying for unemployment benefits each week. Nevertheless, business activity was on the rise throughout the month, with the services sector seeing the highest growth for nearly six years and the manufacturing sector also seeing strong growth.

Asia Pacific

In Asia Pacific, many countries have benefited from a rebound in global trade as the world has adjusted to the pandemic, as well as their tendency to be more successful at containing the spread of the virus. China likely saw reduced manufacturing output in February as factories typically scale back operations during the Lunar New Year holiday. However, the country continued to experience strong demand for its exports and remains one of the strongest economies in the world.

Taiwan is also on a strong footing and has forecast that its economy will grow by 4.6% in 2021, its fastest pace since 2014. Taiwan is a major exporter of computer chips and is benefiting from high global demand for technology products. In Japan, there was strong demand from China for its technology exports, but the domestic economy has struggled after the government implemented new COVID-19 restrictions. The country's economy is expected to shrink in the first three months of the year as efforts to contain the virus are likely to dampen business activity.

Outlook

As countries ramp up their vaccination programmes, the outlook for markets and economies will be tied to the path of the pandemic. At present, it appears that the vaccines are helping to drive down infection rates, which should allow economies to re-open and business activity to resume. We expect central banks and governments to continue to support economies and this should be good for stock markets.

However, much of the outlook for the months ahead will be dependent on increasing economic growth and whether or not we begin to see rising inflation. If it rises too quickly, then central banks may have to hike interest rates, which would be negative for stock markets. We will continue to monitor the situation and adjust our asset allocation accordingly to suit economic and market conditions.

Portfolio activity

Our portfolio positioning within Shares has not changed substantially over the past month. In some portfolios, we added exposure to the clean energy sector over the month, as we reduced some of our holdings in Europe and the US. We also continue to have exposure to the technology sector and have added holdings in so-called value companies, such as banks and industrial companies. We believe these types of businesses will benefit from the anticipated uptick in economic activity once COVID-19 restrictions are eased – the so-called 're-opening trade'.

In Bonds, our positioning is unchanged. We continue to hold European Investment Grade Corporate Bonds and core Government Bonds in some portfolios. However, our view remains that Government Bonds offer reduced diversification benefits at the moment. In some portfolios, we also hold Gold and counter-cyclical currency exposures, such as those that may be likely to perform well even when the economy is suffering.

Note: The Portfolio Investments and Atlas Portfolios are Multi-asset, globally diversified portfolios. Although the portfolios may share similar underlying investments in terms of asset and fund selection, they will differ in terms of the way the funds are managed and the proposition in which they are held. Please refer to the Key Investor Information Document (KIID) for details on the objectives of the individual funds. If you have any questions relating to specific differences of the Portfolio Investments or Atlas Portfolios fund ranges, please contact your Private Banker.

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