

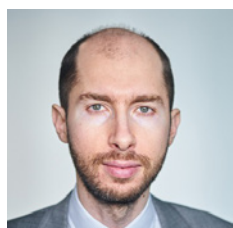
A month in the markets



Private
Banking

By Stefano Amato

May 2021



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Month of April

Market Review

It was another good month for global stock markets, as most regions of the world were firmly in positive territory. With April being a month when companies report their earnings for the first three months of the year, markets were generally lifted by strong results from major technology, industrial and financial companies. Similarly, central banks around the world, and particularly in the US, Europe and Japan, have signalled their intention to be highly supportive of financial markets for as long as required and will only begin to reduce this when the time is right.

Against this backdrop, the UK and US stock markets delivered strong returns over the month. Similarly, Europe and most of Asia Pacific delivered solid returns. China's stock market has been more muted recently but was positive for the month. Japan was negative, having underperformed due to concerns about surging COVID-19 cases which resulted in new lockdown measures that could threaten corporate earnings.

UK and Europe

It seemed as though Europe and the UK were moving in different directions in April as far as the pandemic and economic conditions were concerned. Following a strict three-month lockdown, businesses in the UK began re-opening throughout April as COVID-19 infection rates and hospitalisations fell to low levels. Business activity picked up substantially as a result, with the services sector - which includes consumer-facing business such as retail and restaurants - growing at a faster pace than manufacturing for the first time since the pandemic began. This coincided with the Office for National Statistics reporting that the unemployment rate stood at 4.9%, down from 5% and a survey from the Confederation of British Industry finding that, between 26 March and 15 April, retail sales increased at their fastest pace since September 2018.

In Europe, the economy continued to struggle as governments tried to get to grips with a slower vaccine rollout and spiking infection rates. Throughout the month, restrictions remained tight in many European countries in an attempt to bring down COVID-19 cases. Growth in the manufacturing sector hit a record-high and the services sector also managed to return to growth territory, albeit only at modest levels. Nevertheless, the damage that COVID-19 restrictions inflicted on the Eurozone economy in the first three months became fully known at the end of April, as it was reported that first-quarter economic growth fell by 0.6%, putting the trading bloc back into recession.

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US

In contrast to Europe, the US economy has only strengthened. In the first three months of the year, the economy grew at an annualised rate of 6.4%, which was stronger than expected. At the same time, data released at the end of April showed that consumer spending went up 4.2% in March compared with a 1% fall in February, thanks to President Joe Biden's £1.9tn financial relief programme that provided support to consumers. All of this points to a promising recovery in the US, where nearly 100 million Americans are fully vaccinated and COVID-19 infections are at the lowest level since October.

At the same time, the end of April was the middle of corporate earnings season and there was good news as the world's largest companies reported strong results for the first quarter. Technology companies such as Facebook, Amazon, Apple and Google all recorded high revenues, as did major industrial companies and banks.

Asia Pacific

Much of the focus in Asia Pacific lately has been on China, which has recovered earlier than the rest of the world. In the first three months of the year, China's economy grew by a record 18.3%. However, this growth rate was slower than economists expected, partly because the global shortage of computer chips put a damper on manufacturing activity. While markets were positive for the month, the country's major technology companies have seen their share prices fall recently due to a government crackdown fuelled by worries about their market dominance and ability to sway public opinion.

In contrast, Japan's recovery was plunged into uncertainty after a rise in COVID-19 cases led to new lockdown measures. In March, industrial output was boosted by an unexpected increase in car production, while the unemployment rate decreased. However, there is the possibility this momentum could be derailed if the country's fourth wave of the pandemic hits hard.

Outlook

As the rollout of vaccines around the world begins to ramp up, the prospect for a return to normality, or at least a partial return to normality, is increasing. In the UK and US, where vaccination programmes are at an advanced stage, economic activity is beginning to recover as businesses reopen and consumer spending increases. Alongside this, governments and central banks are doing all they can to support financial markets and economies through low interest rates and financial relief programmes. We believe this will create favourable conditions for stock markets in the coming months.

There is still the possibility of setbacks that could derail the global recovery. The pandemic is affecting different parts of the world at different rates, and any surge in infection rates or problems with vaccine supplies in developed economies could lead to further lockdowns and a decline in business activity. As ever, we will continue to monitor ongoing developments and adjust our asset allocation to suit economic and market conditions.

Portfolio Activity

Given that central banks and governments are pulling out the stops to support markets and economies, we are still comfortable to add risk in a considered manner into some portfolios by investing in shares, for the potential of higher returns. We continue to prefer the US but have reduced our overall position in Asia Pacific recently. We have tactically increased our exposure to Japan specifically, because we believe companies based there will benefit from the global recovery. However, we are monitoring the situation given the possibility that further lockdowns may hurt corporate activity in the country.

We still hold an underweight allocation to bonds in some portfolios, given our preference to invest in shares. While yields on benchmark Government bonds in the US and UK, which move in the opposite direction of prices, have moved higher recently, it remains our view that Government bonds offer reduced diversification benefits at the moment.

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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