

Monthly Market Summary

March 2021



Summary: Yields rise further; synchronised growth

Global equities rose in March, ending the month up +2.7% (in USD terms), while government bonds fell, -0.2% (in USD terms). Key events included:

- Equities remain unfazed as bond yields rise further;
- US relief package approved; next: Biden's c\$2trn infrastructure plan;
- Central banks dovish; forward looking data remains firmly positive

Strong economic recovery continued to drive markets in March, despite an upturn in infection rates. The US yield curve steepened further, as long dated bond yields rose; the benchmark 10yr reached highs of 1.7%, driven by rising inflation expectations and real yields. Equity markets have so far responded positively, despite the collapse of Archegos and the subsequent unwinding of its positions, with global stocks reaching new highs. Both gold and oil declined (gold -1.5% and brent -3.9%).

US: Strong data, Big stimulus, Fed Dovish

Despite February's cold snap, the US economy retained its momentum. Payroll data show job creation higher and unemployment drifting lower in February, while the ISM manufacturing survey – a gauge of economic health – strengthened further into March. Accelerated vaccine rollout continued, with 90% of adults to be offered an inoculation by late April. Meanwhile, the Fed revised US growth forecasts for 2021 to 6.5% (up from 4.2% in December). The FOMC remain firmly dovish: interest rates remain on hold and Powell reiterated that a temporary rise in inflation would not prompt a shift in policy. Fiscally, Biden's \$1.9trn relief package (c. 10% of GDP) was passed by the Senate as part of a wider budget reconciliation package. Ahead, Biden is set to unveil a c\$2trn infrastructure package. In geopolitics, Biden has signalled his intention to salvage the 2015 Iran nuclear deal.

Europe: Surprise data, ECB control yields, Green shoots

A striking IFO survey - the highest since June 2019 – follows upbeat business surveys with the eurozone registering a potential surge in industrial activity. The vaccine rollout in Europe remains sluggish, so far; signs of vaccine nationalism emerged as the EU threatened to restrict exports. The ECB has signalled its commitment to soft yield curve control - intending to ramp up the purchase of bonds under the PEPP programme over the quarter, to constrain yields. In the UK, GDP fell by less than anticipated in the fourth quarter of last year, despite weaker trade data. In contrast to its European neighbours, the UK has laid out a roadmap to reopening after its successful vaccination drive. Fiscal support has been extended, but the UK chancellor plans to eventually restore a balanced budget: corporation tax is rising ahead, alongside higher stealth taxes on individuals.

ROW: Seasonal distortions; Dovish Japan; Governance issues in Turkey, Brazil

Though encouraging, holiday distortions and last year's base effects may exaggerate the strength in China's hard data: retail sales and industrial production surged over 30% (y/y) and were ahead of expectations. Mixed Asian trade data echoed China's usual seasonal slowdown, with its neighbours - Korea, Taiwan and Japan - reporting soft export volumes in February. Meanwhile, initial high-level discussion between the Biden Administration and Chinese diplomats ended on unfriendly terms, with the negotiating door still ajar. A dovish Bank of Japan widened the band around its yield curve control. In Turkey, Erdogan dismissed his third central bank governor in two years – the Lira unwound, depreciating 15% against the dollar. Brazilian President, Jair Bolsonaro, removed several cabinet members.

Performance figures (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	1.74%	-2.4%	-5.9%
UK 10 Yr	0.85%	-0.1%	-3.4%
Swiss 10 Yr	-0.28%	0.5%	-0.2%
German 10 Yr	-0.29%	0.4%	-1.2%
Global IG (hdg \$)	1.74%	-1.0%	9.2%
Global HY (hdg \$)	4.64%	-0.3%	23.4%

Equity Index	Level	1M %	1 Yr %
MSCI World (\$)	343	2.7%	54.6%
S&P 500	3,973	4.4%	56.3%
MSCI UK	11,347	4.1%	20.0%
SMI	11,047	6.4%	22.6%
Eurostoxx 50	3,919	7.9%	44.4%
DAX	15,008	8.9%	51.1%
CAC	6,067	6.5%	41.0%
Hang Seng	28,378	-1.8%	24.3%
MSCI EM (\$)	638	-1.5%	58.4%

Currencies (trade-weighted, nominal)	1M %	1 Yr %
US Dollar	1.1%	-6.6%
Euro	-1.7%	-1.0%
Yen	-3.0%	-10.6%
Pound Sterling	1.1%	4.2%
Swiss Franc	-1.7%	-5.0%
Chinese Yuan	0.9%	4.1%

Commodities	Level	1M %	1 Yr %
Gold (\$/oz)	1,708	-1.5%	8.3%
Brent (\$/b)	64	-3.9%	179.4%
Copper (\$/lbs)	8,788	-3.8%	77.9%

PMI heatmap: manufacturing and services

	2020										2021		
	4	5	6	7	8	9	10	11	12	1	2	3	
MANUFACTURING													
US	36	40	50	51	53	53	53	57	57	59	59	59	
UK	33	41	50	53	55	54	54	56	58	54	55	58	
Eurozone	33	39	47	52	52	54	55	54	55	55	58	62	
Japan	42	38	40	45	47	48	49	49	50	50	51	52	
SERVICES													
US	27	38	48	50	55	55	57	58	55	58	60	60	
UK	13	29	47	57	59	56	51	48	49	40	50	57	
Eurozone	12	31	48	55	51	48	47	42	46	45	46	49	
Japan	22	27	45	45	45	47	48	48	48	46	46	47	

Source: Bloomberg, Rothschild & Co, correct to 31 March 2021.



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