

Monthly Market Summary



January 2021

Summary: Volatility up as stock market dips

Global equities hit new highs in January but reversed to end the month flat, -0.5% (in USD terms), alongside government bonds, -0.6% (in USD terms). Key events included:

- COVID cases hit 100m and vaccine rollout accelerates, with Israel leading;
- Global economy concludes 2020 on a respectable note;
- President Biden's flurry of executive orders and big stimulus proposal

Signs of profit taking, and some targeted manipulation by retail groups, saw equities dip, and silver futures spike to a seven-year high, at month-end. Both government and corporate credit softened as the US curve steepened, with the yield on the US 10yr reaching 1.15% mid-month. Energy outperformed in the month (+2.9%), reflecting oil's continued recovery. Bitcoin surged mid-month, touching new highs of c\$40,900 before retreating. Fourth quarter earnings continue to surprise as 80% of US companies beating expectations, so far.

US: Recovery still intact, FOMC on hold, President Biden

US economic recovery remained robust, despite softer manufacturing activity in January – the ISM manufacturing survey ticked lower to 58.7 (down from 60.7) with the 'New Orders' component falling to 61. Meanwhile US GDP in the fourth quarter grew 1.0% (non-annualised), broadly in line with consensus; the US economy is now only 2.5% below pre-pandemic levels of output. The FOMC reiterated its dovish policy stance, keeping rates and the pace of asset purchases unchanged. In political developments, Biden's first move as president included multiple executive orders; re-joining the Paris Climate Agreement, re-engaging with WHO and seeking bipartisan approval for a \$1.9trn stimulus package (Republicans' counteroffer stands at \$619bn). Meanwhile, Trump's impeachment commenced following accusations of incitement at the Capitol riots.

Europe: Economies resilient, Vaccine rollout, Conte resigns

Despite ongoing lockdowns across many European countries, economies proved resilient with Eurozone GDP contracting -0.7% in the fourth quarter, less than feared. While service sectors have seen output fall, stronger manufacturing has limited the overall GDP decline. Timelier activity indicators softened slightly in January, with the EU-wide flash manufacturing PMI falling to 54.8 (from 55.2), its seventh consecutive 'expansionary' month. In terms of policy, the ECB remained dovish, as Lagarde signalled possible further stimulus ahead. Elsewhere, vaccine rollout across Europe remains sluggish, seemingly held up by bureaucracy and supply constraints. Conversely, a post-Brexit UK was quick to roll out vaccinations. In Italy, Giuseppe Conte's government faced collapse after a junior coalition partner withdrew support.

ROW: Asia's mixed recovery, Geopolitical tensions surge

China's recovery has eased with the Caixin manufacturing PMI softening to 51.5 in January (from 53) partly due to domestic issues – sporadic virus cases causing local shutdowns – but also weakening overseas demand. Meanwhile, Chinese industrial output rose 7.3% (y/y) in December, with retail sales edging up as well. A cautious PBOC tightened liquidity to curb the risk of asset bubbles forming. Meanwhile, Prime Minister Suga issued a second state of emergency in Japan, hitting most of the population. Industrial output declined in December whilst the average jobless rate rose for the first time in 11-years. Elsewhere, geopolitical tensions escalated following a military coup in Myanmar and a crackdown on dissidents in Russia.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	1.07%	-1.1%	5.4%
UK 10 Yr	0.33%	-1.0%	2.2%
Swiss 10 Yr	-0.42%	-0.6%	-2.2%
German 10 Yr	-0.52%	-0.2%	0.4%
Global IG (hdg \$)	1.41%	-0.8%	5.2%
Global HY (hdg \$)	4.58%	-0.0%	5.3%

Equity Index	Level	1M %	1 Yr %
S&P 500	3,714	-1.0%	17.2%
MSCI UK	10,710	-0.7%	-10.9%
SMI	10,591	-1.1%	3.1%
Eurostoxx 50	3,481	-1.8%	-1.8%
Nikkei	27,663	0.8%	21.5%
Hang Seng	28,284	3.9%	11.0%
MSCI World (lcl)	307	-0.2%	14.7%
MSCI World (\$)	327	-0.5%	17.0%

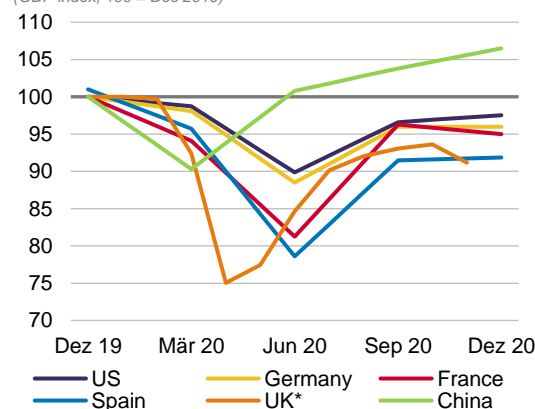
Currencies (trade-weighted, nominal)

US Dollar	0.7%	-2.6%
Euro	-1.2%	5.6%
Yen	-1.7%	-2.4%
Pound Sterling	1.1%	-1.6%
Swiss Franc	-0.7%	1.0%
Chinese Yuan	2.2%	1.7%

Other	Level		
VIX	33.1	45.5%	75.6%
Brent (\$/b)	55.9	7.9%	-3.9%
Gold (\$/oz)	1,848	-2.7%	16.3%

Economic resilience into year-end

(GDP index; 100 = Dec 2019)



Source: Bloomberg, Rothschild & Co
*UK GDP correct to 30 November 2020
Correct to 31/01/2021



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