

# Monthly Market Summary

February 2021



## Summary: rising yields, investors focus on growth & inflation

Global equities ended February higher, +2.3% (in USD terms) withstanding the end-of-month sell-off, while government bonds fell, -1.8% (in USD terms). Key events included:

- Higher rates stoking fears into month-end, as the US 10yr touched a 12-month high;
- US House passes Biden's US\$1.9 trillion COVID relief plan, headed to the Senate;
- Global vaccinations programs continued to accelerate (see chart)

A rapid rise in bond yields hurt investor sentiment into month-end with equities and bonds selling off as the US 10yr yield touched a 12-month high at 1.6%, driven by inflation expectations and optimism for the economy. In a dovish testimony, the Fed's Powell labelled inflation soft (core PCE inflation at 1.5% y/y in January). Meanwhile, energy outperformed for a second month (+15.7%), led higher by oil (Brent +18.3%) as economies were poised to reopen. Separately, corporate earnings defied expectations of a contraction in Q4, helping bolster investor sentiment during the month.

### US: Retail sales confidence, Services rebound, Trump acquitted (again)

The US economy continued its recover with improving consumer confidence and strong spending – core retail sales rose +6% (m/m) in January – helped by disbursement of US\$600 stimulus checks in January. Services activity was strongest in almost 6 years with the flash PMI at 58.9, as authorities rolled back some measures with falling infections and hospitalizations. Testifying to the momentum, manufacturing activity (ISM PMI) also remained firmly expansionary at 60.8 despite February's freeze and a global chip shortage which hurt car production. Meanwhile, Trump was acquitted (for a second time) by the Senate, and President Biden scored a legislative win as the US House of Representatives passed a US\$1.9 trillion Covid relief package, which is headed next to the Senate.

### Europe: Manufacturing strength, Draghi new Italian PM, UK reopening plan

European factory activity improved in February with the manufacturing PMI at 57.9, a three-year high, supported by strong export demand, while consumer facing services remained weaker and in contraction. Addressing the increase in borrowing costs, ECB President Lagarde verbally intervened, saying that policymakers are closely monitoring the higher rates. Elsewhere, Mario Draghi, the former ECB head was sworn in as Italy's Prime Minister, a development welcomed by investors with Italy's 10-year yield spread versus Germany falling to its narrowest level in five years and benchmark stock indices advancing to a one-year high. Meanwhile, in the light of slowly improving vaccine rollouts, and some rollover in contagion, some countries have presented gradual reopening strategies such as the UK's four-step plan to ease lockdown rules by June.

### ROW: China's Lunar New Year, Japan's factory rebound, India's vaccine drive

The pace of recovery in China eased somewhat in February, the manufacturing PMI fell to 50.6 – its lowest level since May 2020 – impacted by local curbs and seasonal effects (Lunar New Year). Sales for the holiday period grew by almost one-third compared to the period in 2020, and equities reached an all-time high in the month as traders returned after the period. Meanwhile, Japan's factory output rose +4.2% in January (m/m), and manufacturing activity (PMI) expanded at its fastest pace in two years at 51.4, while consumer spending softened for a second straight month in January, impacted by measures to contain the virus. Elsewhere, India, which is second in the world by number of cases, widened its vaccination campaign as some states reported a spike in cases.

Performance figures (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	1.41%	-2.3%	-0.2%
UK 10 Yr	0.82%	-3.8%	-2.6%
Swiss 10 Yr		-0.19%	-1.4%
German 10 Yr		-0.26%	-2.0%
Global IG (hdg \$)	1.59%	-1.4%	2.9%
Global HY (hdg \$)	4.53%	0.1%	7.2%

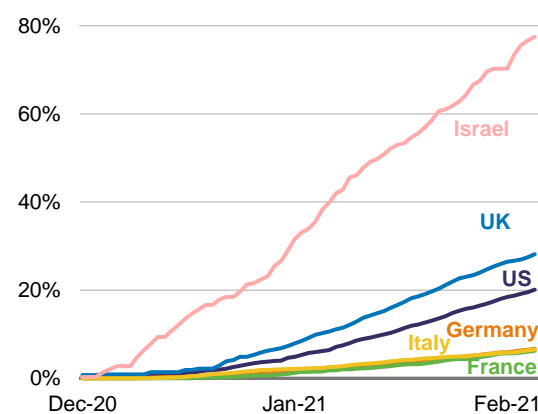
Equity Index	Level	1M %	1 Yr %
S&P 500	3,811	2.8%	31.3%
MSCI UK	10,897	1.8%	-0.2%
SMI	10,552	-0.6%	10.7%
Eurostoxx 50	3,636	4.6%	12.1%
Nikkei	28,966	4.8%	39.6%
Hang Seng	28,980	2.5%	14.5%
MSCI World (lcl)	314	2.4%	27.2%
MSCI World (\$)	334	2.3%	30.2%

Currencies (trade-weighted, nominal)

US Dollar		0.9%	-4.1%
Euro		0.3%	6.0%
Yen		-1.3%	-3.8%
Pound Sterling		2.1%	2.7%
Swiss Franc		-1.5%	0.2%
Chinese Yuan		-0.2%	4.1%

Other	Level		
VIX	28.0	-15.5%	-30.3%
Brent (\$/b)	66.1	18.3%	30.9%
Gold (\$/oz)	1,734	-6.1%	9.4%

Cumulative vaccinations (% of population)



Source: Bloomberg, Rothschild & Co, correct to 26 February 2021.



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