Beesure financial planning

POTENTIAL FOR SWIFT RECOVERY PROMPTS FEARS OF INFLATION

This week there was a bit of excitement in markets as investors tried to process what an end to the coronavirus pandemic might mean. In the first instance there is some hope this might mean a strong recovery over the summer, as pent up demand gets released and some of the savings people made over 2020 get spent. After that things get a bit trickier to figure out. Exactly what state the economy will be in after the furlough scheme ends and which businesses are still standing is unknown. While we expect things to get better, Covid wasn't the only problem we had to deal with. As far as we know there isn't a vaccine for Brexit and trade tensions.

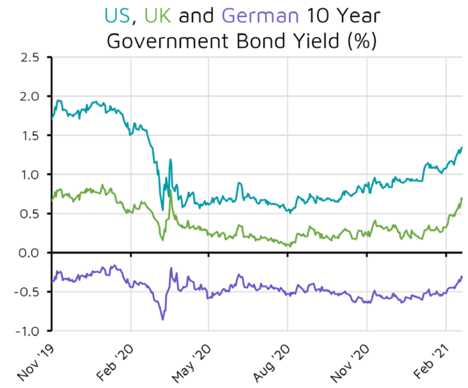
Elsewhere the light at the end of tunnel is also causing some turbulence in the US. As well as a successful vaccination rollout, they are also planning a huge $1.9trn support package. Trying to figure out what both these things mean together has led some to conclude inflation could be right around the corner. That has led to some selling of government bonds that had a rough week overall.

THE MARKETS THIS WEEK

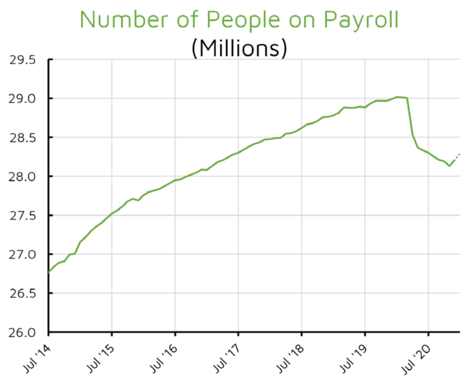
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+0.28%	-2.16%	-4.20%	-1.09%	-5.43%	+0.13%	+0.07%	+5.15%	-0.57%	+2.27%	-0.44%

MARKETS: FEARS OF RISING INFLATION CAUSE MARKET TURBULENCE

The spectre of rising inflation has spooked some sections of the financial markets this week and caused a sharp increase in volatility. The yields on many government bonds increased sharply as investors sold due to concerns that inflation will increase faster than expected and further erode already low real yields (return after inflation). Inflation is currently well below official targets in most developed economies and even in countries where it is picking up, such as the US, it is coming from a low starting point. Chief executive of Pimco, one of the world's largest bond fund managers, said there is a real risk markets are reacting to the fear of inflation rather than inflation itself.



Many equity markets have also seen large single-day movements as investors speculate that rising inflation may see central banks begin to withdraw monetary stimulus - despite the US Federal Reserve attempting to reassure markets this week. Technology stocks have seen the most volatility, with the tech-heavy Nasdaq index dropping by 3.5 per cent on Thursday.



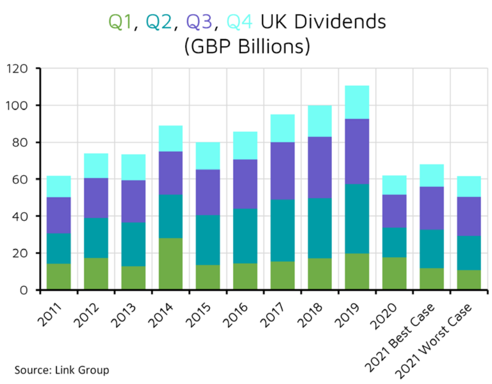
UK: RISING UNEMPLOYMENT NUMBERS ADD PRESSURE TO CHANCELLOR

The UK unemployment rate rose to 5.1 per cent in December as the economic fallout from the pandemic continues to grow. The unemployment rate is now 1.3 percentage points higher than December 2019. The latest figures do have some positive news as the redundancy rate has slowed down slightly, while the number of people on company payrolls increased slightly from the previous month. The number of new vacancies also continued to increase. However, even these positive numbers can obscure a more disappointing general picture. For example, average pay has increased sharply since the middle of last year (by around 4 per cent) but this is less to do with wage increases than younger and lower-paid workers having lost their jobs in greater numbers.

The fact that the unemployment rate has continued to increase despite the Government's furlough scheme (even before the most recent lockdown in England) shows the headwinds for economic recovery. Chancellor Rishi Sunak will deliver his latest budget next Wednesday (3rd March) and he is facing calls to further extend the furlough scheme past its current April deadline.

EQUITIES: OUTLOOK FOR DIVIDENDS IMPROVES AS BANKS RESUME PAYOUTS

The total paid out by UK companies in dividends fell by more than 44 per cent in 2020 as companies cancelled dividends to help conserve cash in the face of coronavirus trading restrictions. A big contributor to this drop was the cancellation of bank dividends under the direction of The Prudential Regulation Authority. In 2019 financial services was the third largest contributor to UK dividends after oil & gas and mining stocks, paying £15.6bn. In 2020 the total paid out was £60m.



This week the last of the big five UK banks delivered its annual report for 2020 and income investors will welcome the return of dividend payments. HSBC, Lloyds, Barclays, NatWest and Standard Chartered all confirmed shareholder payouts will resume, with most banks paying the maximum now allowed by the PRA. Several banks have also promised share buybacks to boost investor payouts and other news such as recent increases in Shell's dividend improve the outlook for the level of payments in 2021.

Data Sourced from FE Analytics, and Bloomberg Finance LP