WEEKLY MARKET COMMENTARY
19 March 2021

MARKETS SCEPTICAL ABOUT CENTRAL BANKS' COMMITMENT TO LOW INTEREST RATES

This week we saw markets continue to worry about what a world without free money might look like, with government bonds getting dumped despite US Federal Reserve claims that rate rises are two or three years away. The perverse good news is bad news scenario happens when markets focus more on the withdrawal of government support than the improving economy. While in the long term a growing economy is genuinely a good thing, there can be some short-term pain as investors re-evaluate and reposition.

Elsewhere, while high-flying Tesla has been hit by this repositioning, losing around 11 per cent since the start of the year, previously beleaguered Volkswagen is having something of a renaissance. Following a Tesla-like "powertrain day" where it showcased its electrification plans the share price has also gone Tesla-like, gaining around 75 per cent in the same period. While it's tempting to view this as a turnaround story following the diesel-gate scandal, it shows that despite the current trend for bargain hunting, there's still a premium for a good long-term growth strategy.

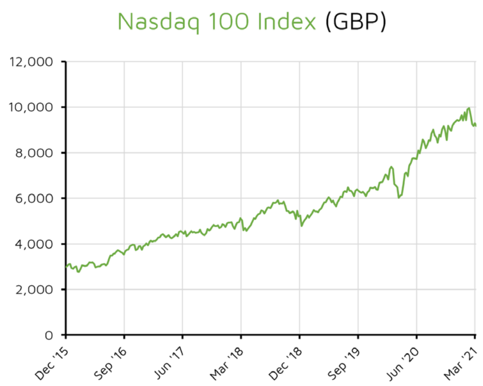
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-0.15%	-0.61%	+0.25%	+0.45%	+0.87%	+0.06%	+0.01%	-7.11%	+0.91%	+0.32%	+0.09%

US: MORE VOLATILITY AS US FED HOLDS INTEREST RATES

"No short-term rate hikes" was the message from the US Federal Reserve's March interest rate meeting. Despite improving its forecast for near-term economic growth and prediction that US unemployment will fall to 4.5 per cent this year, the Fed was at pains to emphasise its long-term approach and tolerance for inflation running above its 2 per cent target.

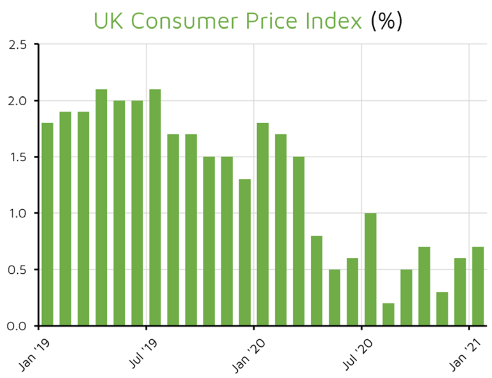
The consensus view from policy makers is that interest rates will begin to increase in 2024, although a small number expect rates to increase before that. Markets appear to be favouring the minority view of Fed policy makers and US Treasury yields have been increasing again this week as US government bonds saw more selling. This put pressure once more on high-value, high-growth tech stocks as the Nasdaq also fell due to fears of rising interest rates and Treasury yields. Recent volatility needs some context. The Nasdaq fell 3 per cent on Thursday and is down around 7.5 per cent since its February peak, but it remains up 60 per cent over the last 12 months and 200 per cent over the last 5 years.



UK: BANK OF ENGLAND POINTS TO FASTER GROWTH AS OUTLOOK IMPROVES

The Bank of England's Monetary Policy Committee came to the same conclusion as its US counterpart and both interest rates and its monthly asset purchases remain unchanged following its March meeting. The UK's central bank also upgraded its outlook for economic growth, helped by the roll-out of vaccinations in the UK and US and further support to financial markets from the huge US stimulus package.

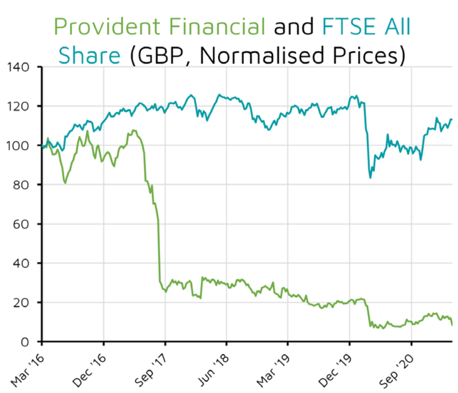
The bank expects inflation to increase from the 0.7 per cent seen in January to hit the 2 per cent target in the spring. However it puts this down to technical reasons and forecasts most of this increase will come from the plunge in the oil price in early 2020 beginning to fall out of the rolling 12-month inflation calculation. It remains more concerned that inflation will run lower than its target rate in the medium term and committed to "take whatever additional action was necessary" to hit its 2 per cent target if the outlook for inflation weakens.



EQUITIES: PROVIDENT FINANCIAL COUNTS THE COST OF LOCKDOWN

Five years ago sub-prime lender Provident Financial was in the FTSE 100 and a fixture of many UK value funds, including a substantial holding of Neil Woodford's income funds. Following a turbulent few years of profits warnings and scrutiny from regulators, shares in the company are a fraction of their former value and the company languishes at the bottom of the FTSE 250.

The company is facing more problems with a fresh investigation by the Financial Conduct Authority announced this week following a surge in complaints about its struggling consumer credit, or doorstep lending, business. With its credit card and car finance businesses still profitable, Provident has been trying to place its consumer credit business into a scheme of arrangement to limit its liabilities, but this is being resisted by the regulator. Shares in the company fell a further 20 per cent on Monday and are down around 90 per cent from their peak in 2016.



Data Sourced from FE Analytics, and Bloomberg Finance LP