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Investment Services

# Reeves Market Outlook

## March 2021

# 1. UK house prices rise at fastest rate since 2014

UK house prices have risen at the fastest rate since 2014 on the back of government intervention and pandemic lifestyle changes, according to official data.
Average prices increased 8.5% in the year to December 2020, up from 7.1% in November, reaching a record high of £252,000. The rise reflected the effect of the stamp duty holiday, a tax exemption on the first £500,000 of residential properties, which is set to be extended to the end of June.

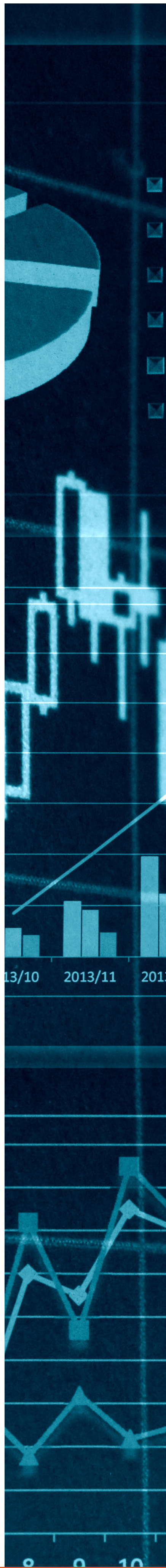
**Relevance/Impact**

Some analysts say that the price surge may begin to halt into 2021 as more challenging economic conditions make prospective buyers less willing, and able, to purchase homes. Furthermore, the end of the stamp duty holiday could slow prices. However, investors should still see capital growth opportunities present themselves.

We hold property in our portfolios, primarily to diversify and act as a defensive asset, although they also produce high yields than many bonds and the prospect of capital growth in prices as an added bonus. This can also produce higher yields than many bonds.

**Source:**

Financial Times UK house prices rise at fastest rate since 2014 https://www.ft.com/content/5c52f2aa-caa2-466d-8d61-db9e2efeeeb8



# 2. Sterling hits fresh highs against the Dollar and the Euro

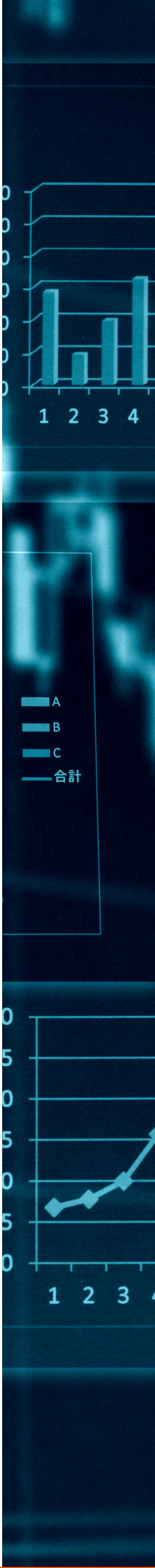
At the start of the month, Sterling was trading at €1.157 and US$1.394, having eased back from above €1.16 and US$1.41.

According to investment bank Goldman Sachs, in a recent research note, the vaccine roll-out and the decrease in infection rates in the UK means the country's economy is well positioned for a near-term rebound.

A further boost to sentiment would follow an expansionary March budget from Chancellor Rishi Sunak says the bank, which adds that the UK has also found favour amongst investors since the signing of the EU-UK trade deal in December 2020, which has lifted some of the uncertainty that marred the outlook for UK assets in general.

Goldman Sach's note also points out that while the UK's high-contact service sector reliant economy suffered one of the worst declines in economic activity in the developed world owing to Covid-related lockdowns, its rebound should also be exceptional.

Meanwhile, Bank of America has reported the strongest demand for Pound Sterling-based assets it has ever seen in nearly a decade of monitoring such flows.




### Relevance/Impact

Investors returning to UK assets is a positive sign for those holding UK equities, which have been overlooked for years.

Most of the Reeves' portfolios are exposed to the UK equity sector as we believe that it offers both growth opportunities, particularly in smaller companies, and income opportunities as companies return to paying dividends.

However, a stronger pound is not all good news. Many foreign companies, including three quarters of those in the UK's top 100 listed companies, earn dollars. This means that they are in the firing line when the dollar weakens, resulting in lower pay-outs to investors. It should be noted that this is a partial reversal of the beneficial effects of currency translation that UK investors have enjoyed since the Brexit vote.

**Source:**

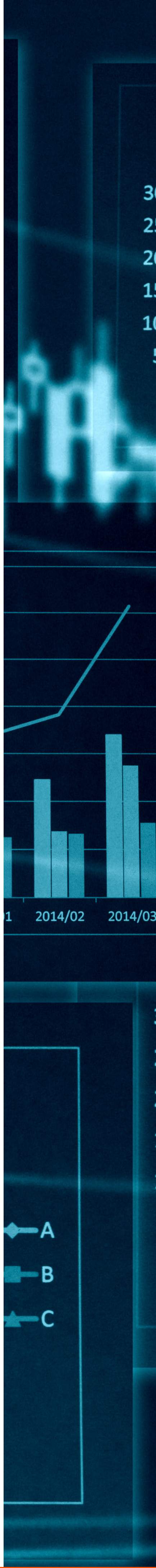
Pound Sterling Live (24th February 2021) Goldman Sachs says Pound Sterling has 'First Mover Advantage' as it hits fresh highs against both Euro and Dollar https://www.poundsterlinglive.com/gbp-live-today/15050-gs-first-mover-pound-to-euro-and-pound-to-dollar

# 3. UK unemployment rises to 5.1% as Covid lockdown freezes economy

Unemployment in UK edged higher to 5.1% in December as the government's furlough scheme continued to prevent a steep rise in job losses in the run-up to Christmas. This was up 1.5 percentage points from a year earlier.

However, annual earnings growth rose sharply to 4.7% in the three months to December, from 3.7% in the three months to November. The ONS has said part of the reason behind this was the fall in the number and proportion of lower paid jobs during the pandemic, so those remaining in work on higher earnings pushed the average up.

This has led to calls for Rishi Sunak to extend the furlough scheme and other measures to prevent businesses from shedding more workers, as the labour market is likely to continue to weaken gradually over the rest of the year.




**Relevance/Impact**

Rising unemployment is bad news for the economy and for investors. For one thing, it indicates a contracting economy. Businesses only tend to lay off workers when they aren't earning the sales and profits to sustain those jobs. A report by the London School of Economics last month found that one in seven smaller businesses, employing 2.5 million people, might be forced to close by the spring without further support from the Treasury.

High unemployment also leads to a loss in buying power and therefore in aggregate demand for goods and services, thereby putting further pressure on businesses and employment.

Economists have warned that the official figures don't cover the full scale of unemployment, with many jobs being protected by the furlough scheme This highlights the importance of Rishi Sunak's decision to extend furlough, as this will determine the future of businesses and subsequently unemployment levels.

**Source:**

The Guardian (23rd February 2021) UK unemployment rises to 5.1% as Covid lockdown freezes economy. https://www.theguardian.com/business/live/2021/feb/23/uk-unemployment-covid-stabilising-vacancies-commodities-ftse-pound-fed-chair-powell-business-live / https://www.theguardian.com/business/live/2021/feb/23/uk-unemployment-covid-stabilising-vacancies-commodities-ftse-pound-fed-chair-powell-business-live

# 4. Should equity investors worry about rising interest rates?

In US, UK, Japan, China, Australia, and Europe, 10-year Government bond yields are now at their highest levels in nearly a year. This is part of the process of validation by financial markets that comes with economic recovery even when bond yields have been driven down to historically low levels by the massive buying programmes of central banks. According to financial data giant Bloomberg, the case for a rise in the US 10-year benchmark interest rate from around 1.3% today looks justified when the consensus call for US economic growth this year has already risen to 4.8% from 3.9% in January.

## Relevance/Impact

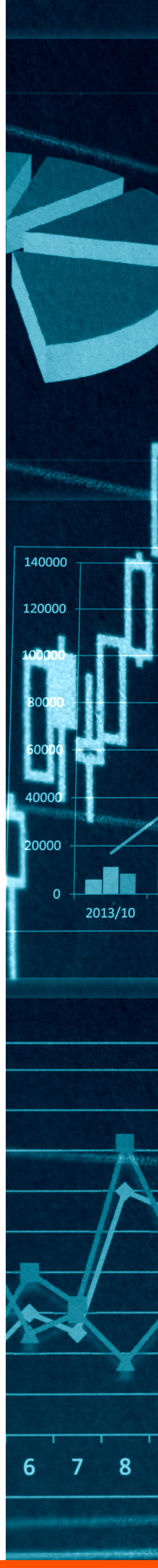
Low rates tend to encourage investors to invest in equities and corporate bonds as they are offer better returns, with high rates having the opposite effect. So, there is a concern that the rising 10-year interest rates, along with sustained higher oil prices, could trigger a drop in equities.

However, there is an argument that equity investors should remain calm and invested in share markets by maintaining a longer term perspective. Historically, higher rates have been offset by rebounding corporate profits and it is predicted that there will be a big increase in corporate earnings this year. Société Générale forecasts a 30% rise in earnings for companies in MSCI World Index and 40% for emerging markets.

The debate currently raging is to what extent higher earnings are already priced in and what level of higher rates can be tolerated by consumers and governments alike given current levels of debt.

**Source:**

Financial Times Should equity investors worry about rising interest rates?
https://www.ft.com/content/054d7d05-ed69-445b-bfa3-c64397d5fa74



# 5. Markets mostly up but optimism tempered by inflation fear

Asian markets have been buoyed by the hope of vaccine rollouts marking a path to global economic recovery.

Infection and death rates are slowing across most of the world as governments have picked up the pace of their vaccination drives and forecasters are predicting a surge in economic activity as lockdowns are eased, supported by huge government and central bank stimulus programmes.

However, optimism has been dampened by worries about inflation and interest rate hikes.

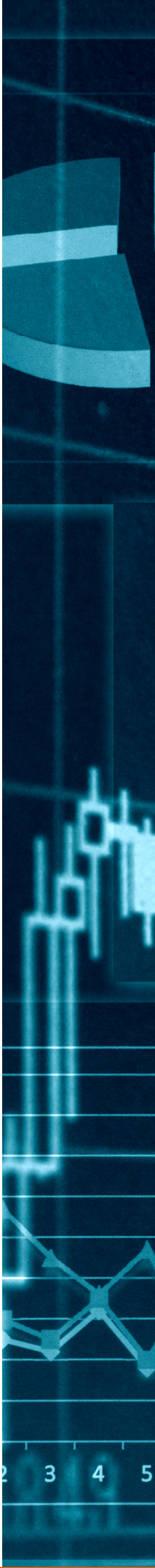
**Relevance/Impact**

Fear of inflation is causing investors to speculate that the US Federal Reserve may have to shift policy sooner than expected, by either reducing bond purchases or even raising rates at some point. That would be a negative for stocks.

There are conflicting opinions on whether the fear of inflation is well placed. On one hand, economists may have consistently underestimated economic growth and it will be stronger than anticipated – this could push inflation up. The global economy is also experiencing supply chain disruptions and shortages which have pushed up commodity prices. However while elements of the new economy may also cause prices to rise in certain sectors, technology disruption continues to have a deflationary effect. The debate continues to rage.

**Source:**

Financial Times Global government bonds hit by fresh wave of selling
https://www.ft.com/content/9fbafac5-02a9-43dd-ab61-b2ca05cb5264



# 6. Retail Investors Battle with Hedge Funds

In one of the most intriguing stories around investment markets, amateur traders using the ‘Wallstreetbets’ Reddit page have pushed up GameStop’s stock price exponentially, in a move to inflict heavy losses on some high-profile hedge funds holding short positions on the stock. GameStop’s price has now risen over 400% since Friday, totalling over 1900% rise Year to date.

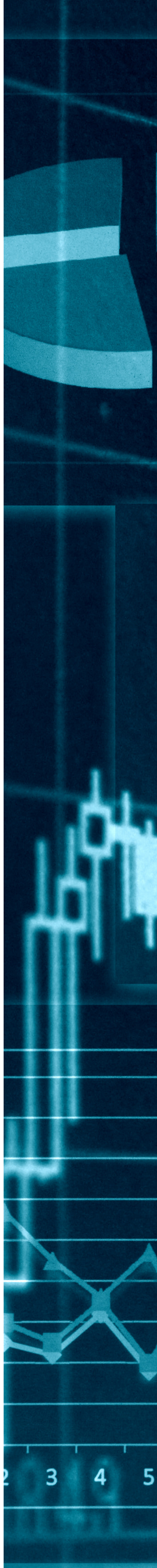
## Relevance/Impact

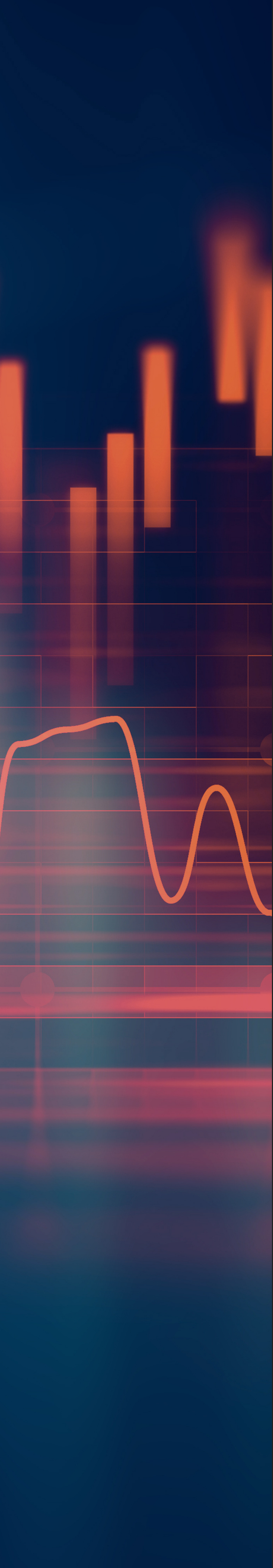
Many of the hedge funds holding short positions were subject to a ‘short squeeze’, in which money is poured into a stock to drive up the price, if this happens then the short sellers incur losses and then need to cover their initial bets to avoid steeper losses. To pay for these loses, many funds sold off other share positions leading to a 2% downslide of Wall Street’s main indexes.

Although the only significant effects have been felt by those holding short positions on the affected stocks, it does highlight the ever-increasing amount of amateur retail investors and lead many to ponder what effect this will have on markets in the longer term. The role of social media in this has also been questioned and the news has dominated a lot of the mainstream financial news stations.

**Source:**

CNBC (25th Feburary 2021) Markets mostly up but optimism tempered by inflation fear
https://uk.finance.yahoo.com/news/asia-markets-swing-reopening-optimism-030515610.html /
https://www.cnbc.com/2021/02/25/why-stock-investors-are-starting-to-really-worry-about-rising-bond-yields.html





## Do you have a question for our Investment Team?

If you have any questions about our Portfolio Management Service or questions about your investments, please book a call with our Investment Service Team who will be happy to answer all your questions.

Book Now

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