

Macro update

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Vaccines versus variants: where to next for markets?



Vaccines versus
the virus





Global growth and
reflation



What does this all this
mean for markets?

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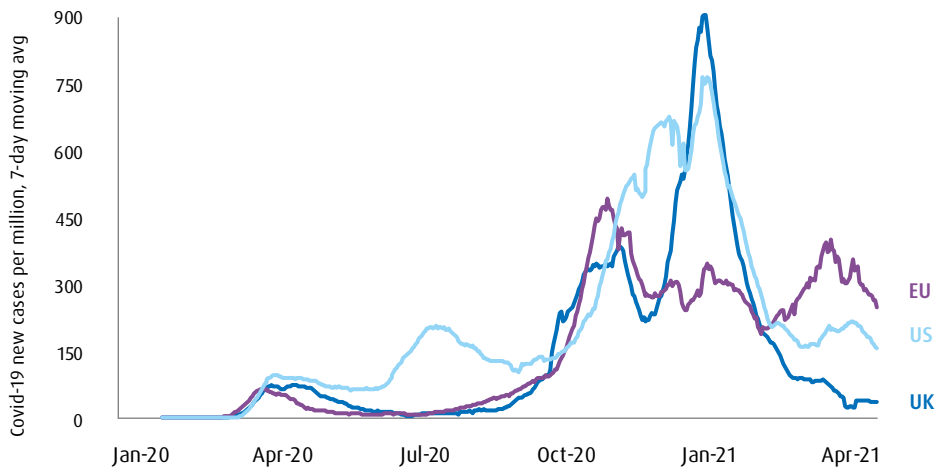
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The pattern of global growth is dominated by vaccine roll-outs, with the US and UK leading. US fiscal policy is moving from stimulus to tax increases – have earnings estimates factored this in? Does Europe's vaccine catch up offer a buying opportunity?



Vaccines versus the virus

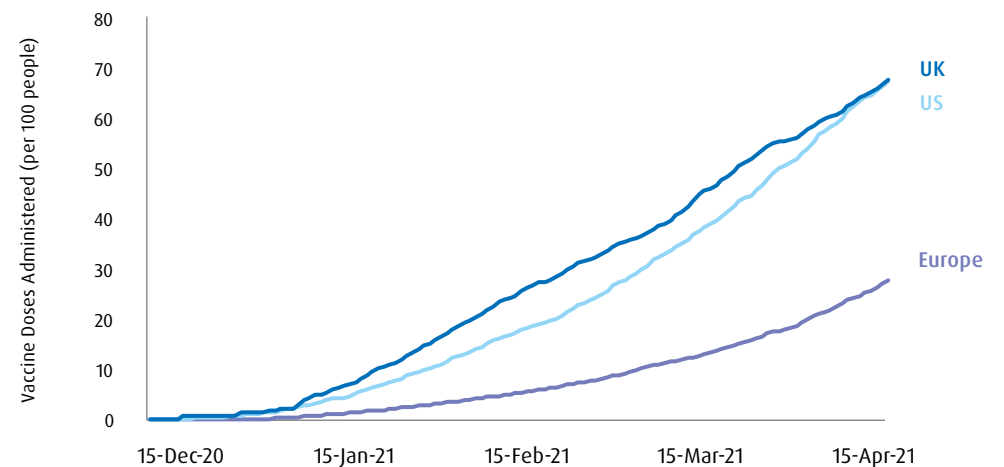
US, EU and UK new cases, 7 day moving average



Source: BMO Global Asset Management and Bloomberg as at 22-Apr-21

- After ticking up in recent weeks, cases in the US have begun to fall.
- Cases in the EU appear to have turned a corner for the better; however, this has come with the price of having to impose further restrictions.
- The most dramatic move has been the decline in new cases in the UK, despite the reopening of schools.

Vaccine doses administered per 100 people



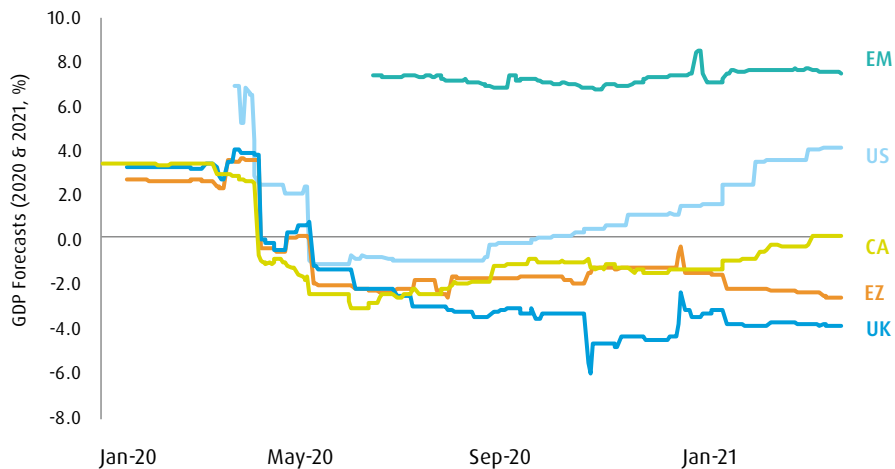
Source: BMO Global Asset Management and Bloomberg as at 22-Apr-21

- Looking at the number of vaccines administered per 100 people, the US has caught up with the UK, Europe is still lagging notably at below 30 people per 100, less than half that of the US and UK.
- However, in terms of population percentage that have received a first dose of a vaccine, the UK is still ahead, and recent data from Public Health England shows that first dosage gives around 80% protection against severe disease.
- The important point is that even if new cases are ticking up, the vaccine programmes means that hospitalisations are still relatively low, and this means that governments can proceed with the opening up of economies.



Global growth and reflation

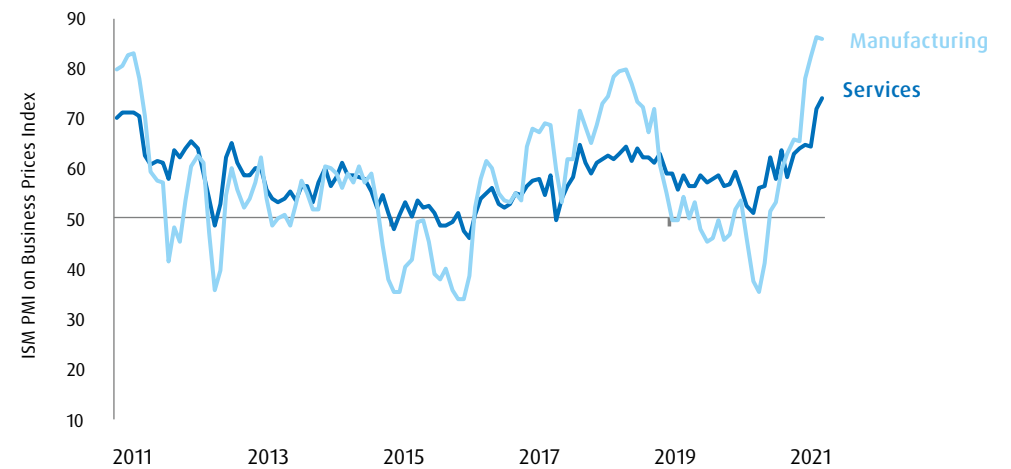
US expected growth continues to improve



Source: BMO Global Asset Management and Bloomberg as at 6-Apr-21

- Fiscal policy has been much more stimulative in the UK and US compared with Europe in 2020 and 2021. Much of the stimulus last year was saved so that the pent-up demand is markedly greater in the UK and US than in Europe.
- For expectations of economic growth, only US and emerging markets are positive, but it is the US growth that keeps getting revised upwards.
- For the UK, the very successful vaccine roll-outs and the continuing easing of restrictions is not yet being fully reflected in future growth estimates – upwards revisions in economic growth estimates are likely in the coming weeks.

Price pressures are rising in the US



Source: BMO Global Asset Management and Bloomberg as at 13-Apr-21

- The chart shows the proportion of businesses that believe prices will increase, and it shows a big rise in expectations over the start of this year, most notably in manufacturing.
- The US Federal Reserve has said it believes that these price rises are “transitory”; markets are rather more nervous.
- In the US President Biden’s planned infrastructure spend is huge, at \$2.3 trillion. His planned tax rises are less, at \$1.6 trillion; however, the tax increases will occur much quicker than the spending, which will result in a mild drag on the US economy in the second half of this year.



What does this all mean for markets?



A boom in the UK is imminent as savers have built up a 'Covid piggy bank', and the housing market is strong.



The recovery in developed markets is gathering pace, although momentum in the US could be peaking; emerging markets continue to struggle.



Inflation worries are likely to ease in the medium term; although it won't be a 'stellar' year for risk assets, they still look set to outperform bonds where pressures will continue to increase.

Macro update – Webinar

Watch the full replay of the Webinar, including a Q&A section.

Key risk

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

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