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May 2021 Market Update

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Some of the numbers in this month's Bulletin are simply staggering. Whether it's Amazon's profits or the 'investment' (which could alternatively be considered 'spending', depending on your political viewpoint) announced by President Biden.

There was a time where the 'standard unit' of currency we talked about was a million. Company profits and valuations were measured in millions: debt was in millions. If the pandemic has done one thing, it is to change our default unit of currency. Now we deal in billions – borrowing to deal with the pandemic is in billions, company profits – at least if you're Amazon – are in billions and no self-respecting start-up seems to go anywhere near the stock market unless it's worth at least a billion.

After a billion, of course, comes a trillion. That's a thousand billion. In April US President Joe Biden was dealing in trillions and, if Amazon profits keep rising, it surely cannot be long before the world has its first trillionaire.

As you will see below, April was a relatively quiet month on the world's stock markets. The FTSE did at one point go through the 7,000 barrier and although it ended the month just below that level was one of the world's better performers. It was certainly a good month in the US and the new President announced unprecedented levels of investment – or spending.

The International Monetary Fund had started the month with an optimistic forecast, predicting that the UK will have growth of 5.3% this year and 5.1% next year. Forecasts for global growth were upgraded slightly, to 6% this year and 4.4% in 2022.

The UK and Australia agreed the 'vast majority' of a trade deal as Australia stepped back from trade deals made with China. There was gloomy news for the Eurozone economy and a potential political earthquake started to seem possible in Germany. And finally, a record that we thought would never be beaten was comprehensively smashed.

As always, let's look at all the details…

UK

As mentioned above, the IMF duly delivered its growth forecast for the UK. There were other, rather more anecdotal predictions of economic recovery this year. Bank of England deputy governor Ben Broadbent said the UK would see 'very rapid growth' over the next two quarters as people rush to spend the money they have saved during lockdown. Barclays boss Jes Staley went even further, saying that 'we estimate the UK economy will grow at its fastest rate since 1948' as the bank unveiled profits more than doubling to £2.4bn for the first three months of the year.

That will certainly be the case if International Trade Secretary Liz Truss gets her way. April saw the announcement that the 'vast majority' of a trade deal with Australia has been agreed with the deal expected to be concluded by June. It is believed that this deal could be a springboard for the UK to join the CPTPP (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which includes countries such Mexico, Japan and Canada in addition to Australia) within the next 12 months.

In the domestic economy it was the construction sector leading the recovery. Figures for February showed that the UK economy edged up 0.4% in the month, driven by a 1.6% rise in the construction sector with both new builds and repair and maintenance doing well. At the end of the month Nationwide reported that house prices were 7.1% higher than a year ago, with the average property now costing £238,831. One analyst said the housing market was 'on the boil' and a story on the BBC reported particularly strong demand for property on the south coast, and on the coast of Wales as people looked to move away from cities.

Inevitably there was some gloom amid the positive noises about the recovery, principally centring on Government borrowing. Measures taken to combat the pandemic have pushed government borrowing to its highest level since the end of the Second World War. Borrowing hit £303.1bn in the year to March – nearly £250bn higher than the previous year. The only consolation was that the figure is £24.3bn less than the £327.4bn expected by the Office for Budget Responsibility in its economic and fiscal outlook.

What of jobs, the high street and – sadly – the companies still making significant redundancies? Defence giant Babcock announced that it would cut 1,000 jobs and Asda – thanks to us all baking at home – is to make 1,200 of its bakers redundant. At the end of the month it was reported that 'time was running out' to save 5,000 jobs at Liberty Steel, and the BBC reported that 1 in 7 shops is empty post-lockdown.

More optimistically it was widely reported that shoppers had 'rushed back' to the national high street as it re-opened, with shoppers said to be making 'revenge purchases' – treating themselves to what they had always wanted as lockdown finally eased. As will be covered below in the US section, the high street has a huge amount of ground to make up and Hammerson – owner of Birmingham's Bull Ring – will not be the only shopping centre owner to cut rents (by up to 30% in this case) in a bid for survival. Ominously, the month ended with online retailer Boohoo set to announce 'soaring' lockdown sales when it updates shareholders on May 5th.

…But overall April was a positive month for the UK economy, and the FTSE-100 index of leading shares reflected it. The market rose 4% in the month to close at 6,970. The pound was virtually unchanged against the dollar in percentage terms, and closed April trading at $1.3817.

Europe

The month did not get off to the best of starts in Europe as France began its third period of lockdown, with schools closing and people being banned from travelling more than 10km (just over six miles) 'without good reason.'

Germany's Commerzbank did little to lift the gloom when it announced a $3.3bn (£2.4bn) loss as it continued to deal with the impact of the pandemic. The bank has said it will cut up to 10,000 jobs and close 'hundreds' of branches as it looks to return to profitability this year. In contrast Ryanair got off relatively lightly, saying that last year's losses will 'only' be £732m.

The Purchasing Managers' Index which came out in the middle of the month seemed to confirm that the pace of recovery was lagging in Europe with the service sector in Spain and Italy particularly slow to recover. This was confirmed at the end of the month when figures for the first quarter showed that the Eurozone economy had fallen back into recession, shrinking by 0.6% in the first three months of the year, having been hit by a renewed surge in infections and the consequent restrictions and lockdowns.

In roughly five months' time Germany will be going to the polls. Could we see the first Green Chancellor? Currently the Greens are leading in the polls, pledging to spend €500bn (£435bn) on a 'socioecological transformation' of the economy, which would see increased welfare payments and wealth taxes, a doubling of carbon taxes, a ban on short-haul flights and increased income taxes – plus a 30 hour working week and the right to work from home. The Green candidate to replace Angela Merkel would be 40 year old Annalena Baerbock.

Meanwhile on the opposite end of the political spectrum the far-right Alternative fur Deutschland (AfD) appears close to embracing 'Dexit.' "We consider a withdrawal of Germany from the EU and the establishment of a new European Economic and Interest Community necessary" said the party. Away from the potential political upheaval April was a reasonably good month for Europe's two leading stock markets. The German DAX index was up 1% to 15,136 while the French market was one of the month's better performers, rising 3% to close April at 6,269.

US

The 'simply staggering' numbers referred to in the introduction are, of course – despite the best efforts of Commerzbank – a reference to this section. More of Amazon's profits and the President's 'once in a generation' plans below…

The month got off to an excellent start on the jobs front as the US economy added 900,000 jobs and the recovery continued. The impressive numbers were largely driven by re-openings at restaurants, bars, construction sites and schools. There was more good news when US medical authorities gave fully vaccinated Americans the go-ahead to begin travelling again, both at home and abroad.

As will be covered ahead, April brought a trade spat between China and Australia, but the US also had its share of international tension in the month. Three companies and four branches of China's National Supercomputing Centre were added to the US blacklist, meaning companies cannot export technology to the groups without prior approval. Sanctions were also imposed on Russia for what the Biden administration described as 'harmful foreign activities' – cyberattacks to you and me.

…And so we come to the numbers. As we all know, there have been winners and losers from lockdown. A surge in iPhone sales – especially in China – has seen Apple's profits double since the beginning of the pandemic. Alphabet, the parent company of Google, saw net profit jump by 162% to a record $17.9bn (£13bn) in the three months to March as advertising revenue grew by a third. Facebook revenues for the first quarter leapt from $17.7bn (£12.8bn) a year ago to $26.1bn (£18.9bn) this year. Tesla made $438m (£317m) in the first quarter of the year, although this was dented somewhat by paying CEO Elon Musk $299m (£216m) – part of the controversial compensation package agreed in 2018.

It was Amazon's figures, though, that really caught the eye, and illustrated just how much of a shift we have made to shopping online – and how much damage the pandemic must have done to high streets and shopping malls around the world.

Although the profits were not as large as Alphabet's, every aspect of Amazon's business from video streaming to grocery delivery, has done well during the pandemic. Revenue for the January to March period rose from $75bn (£54bn) last year to $108.5bn (£78bn) this year, with profits of $8.1bn (£5.86bn) – more than treble what it was in the same period last year. City AM did the maths and reported that Amazon made $13,000 (£9,400) per second in sales during the quarter. With figures showing that the US economy grew at an annualised rate of 6.4% in the first quarter, one analyst said that Amazon could be on the verge of a 'golden age.'

All the company figures, though, were dwarfed by the President's announcement of a $4tn (trillion) "once in a generation investment in America itself." Joe Biden unveiled the American Jobs Plan and the American Families Plan which would, he said, be paid for by rises in corporation tax and by taxes on the 'wealthiest 1%.' The plans were met with fierce opposition by the Republicans but, with the Democrats holding the balance of power in both the Senate and Congress, they are likely to ultimately get the go-ahead.

With the economy accelerating, companies posting record profits and the President announcing that level of investment it was no surprise that April was a good month for US stock markets. The Dow Jones index rose 3% to 33,875 while the more broadly based S&P 500 index was up 5% to end the month at 4,181.

Far East

China was one of the very few countries to see its economy grow in 2020. As the major Western economies all contracted, China reported growth of 2.3%. It was therefore no surprise when the Forbes annual rich list revealed that Beijing had overtaken New York as the city with the most billionaires, adding 33 last year to take its total to a nice, round 100.

…And there could be more next year, as figures showed the Chinese economy up 18.3% on a year-on-year basis in the first quarter as it continued to recover from the pandemic.

That said, the Chinese regulators are flexing their muscles and no-one – not even Jack Ma, boss of Alibaba and generally reckoned to be China's richest man – is outside their reach. The regulators slapped a huge fine on Alibaba – equivalent to just over £2bn – saying the company had 'abused its dominant market position' for several years. The company accepted the fine, and duly vowed to change its ways. Meanwhile in Hong Kong Jimmy Lai, billionaire owner of the Apple Daily tabloid, was sentenced to 14 months in jail for his part in the pro-democracy protests.

Away from China, Samsung pushed its profits to the highest level since the pandemic began. First quarter profits were the best since 2018 at $6.4bn (£4.6bn) on the back of strong mobile sales. There was also strong demand for TVs and home appliances – just as in the UK, if you're going to be trapped at home, you have to spend the money on something…

On the political front tensions between Australia and China continued to escalate. The Australian government used new powers to rip up deals made between the state of Victoria and China as part of China's Belt and Road initiative. The government said it was backing out of the agreements to 'protect Australia's national interest.' The Chinese government called the move 'provocative.'
Of the region's stock markets South Korea had the best month – the market there rising 3% to 3,148. Hong Kong's Hang Seng index rose 1% to 28,675, while China's Shanghai Composite index managed a gain of just five points, closing the month at 3,447. The Japanese market was down 1% at 28,813.

Emerging Markets

The main story in the Emerging Markets section of the Bulletin was, of course, the surge in Covid cases in India.

The middle of the month had seen huge crowds gather to bathe in the Ganges during the Kumbh Mela religious festival, even as a second wave of the virus swept through the country. We will all have seen the tragic scenes from India on various news bulletins, and the month ended with the daily number of cases passing 400,000 for the first time as the second wave worsened.

Meanwhile in Russia thousands of people joined unauthorised rallies to protest against the continuing detention of jailed opposition leader Alexei Navalny, amid demands that he receive proper medical care. Navalny finally ended his hunger strike and was described as a 'gaunt skeleton' for his latest court appearance. Unsurprisingly, the verdict did not go in his favour.

It was a relatively quiet month for the three major stock markets we cover in this section. The Indian market drifted down 1% to end the month at 48,782: Russia's stock market managed to gain just two points in the month to close at 3,544, while the market in Brazil rose 2%, to close April at 118,894.

And finally…

Last month's 'And finally…' was not one of the best. For some reason the world seemed to be in a disappointingly sensible place in March. Fortunately the natural order of things was restored in April.

Having recently written that pet food pouches were expected to be in short supply we must, sadly, start the month with even worse news. There is a shortage of garden gnomes. With garden centres being open during lockdown there has, apparently, been a 'massive upswing' in sales of garden gnomes. Well, yes, when you've only been able to talk to your household for three months, a new face might be appealing.

The situation has not been helped by a shortage of raw materials which – inevitably, has been made worse by our old friend, the Suez Canal blockage.

April looks like it was a good month for our learned friends. Marks and Spencer has begun legal action against Aldi, arguing that their Cuthbert the Caterpillar cake infringes its Colin the Caterpillar trademark. They duly lodged an intellectual property claim in the High Court – and a very expensive Queen's Counsel will shortly be arguing the merits of a cake being intellectual property. No doubt other barristers will be queuing up for a slice of the action…

You may remember Spanish civil servant Joaquin Garcia, who failed to turn up for work – but was still paid – for six years, and was only caught after becoming eligible for a long service award.

There was a record you thought would never be beaten. But April brought news of a – sadly unnamed – Italian hospital employee who appears to have skipped work in the southern city of Catanzaro for 15 years. He was paid €538,000 (£464,000) in the time he was not working, and is now being investigated for fraud – along with six managers.

…And that's it for this month. Except for the news that fund manager Standard Life Aberdeen is having a re-brand. Having no doubt paid design and brand consultants plenty, they are to re-emerge as abrdn. The almost vowel-less re-brand (the A is apparently from Standard) is described to be 'modern' and 'dynamic.'

Of course it will – and not for one minute will we be left behind. We'll be back this time next month, with our modern and dynamic MRKT CMMNTRY.

Sources: https://informedfinancialplanning.co.uk/wp-content/uploads/2021/05/May-Market-Sources.pdf