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Economic & Market review – February 2021

Global equities gained in February, with lowly-valued parts of the market faring well. Vaccine optimism ultimately trumped fears that a stronger-than-expected economic rebound could alter the trajectory of monetary policy.

Government bonds saw a sharp sell-off in late February. Corporate bonds outperformed government bonds in the month.

Commodities gained with energy the best-performing index component as crude oil prices continued to rise.

US equities survived a bout of turbulence to post gains in February. Fears that a rapid economic recovery would hasten policy tightening rattled bond markets before rippling into equities, especially tech. As the fears receded, markets recovered. Sectors that are most sensitive to the economic cycle such as energy, financials, and industrials performed strongly. More traditionally defensive sectors, such as utilities and consumer staples, lagged.

Eurozone equities gained in February, supported by a strong advance for lowly-valued parts of the market such as banks. The energy sector also posted robust gains. Defensive sectors such as utilities and real estate were among the laggards. Eurozone annual inflation was confirmed at 0.9% for January and GDP was down by 0.6% in Q4 2020. The Italian parliament approved the formation of a new government to be led by former European Central Bank chairman Mario Draghi.

Emerging market (EM) equities recorded small gains. Early progress was driven by vaccine optimism and expectations for US fiscal stimulus, but were partly offset by concerns over stronger growth and higher inflation. A stronger dollar was also a headwind for EM.

In fixed income, government bonds saw a sharp sell-off in late February, with corporate bonds outperforming. Having risen steadily on expectations of substantial US fiscal stimulus, government yields lurched higher late in the month as a US Treasury bond auction saw muted demand. The US 10-year Treasury yield rose 36 basis points (bps) to 1.43%. Italian government bonds outperformed German, as investors welcomed the appointment of Mario Draghi as prime minister. The UK 10-year yield increased by 49bps to 0.82%, reflecting optimism around the UK's fast vaccine roll-out and plans for easing lockdown.