Market Commentary – March, 2021

The resolution of the US elections and the roll-out of Covid-19 vaccines worldwide have resulted in generally optimistic financial forecasts for 2021.

Fitch, the ratings agency, raised its target for global GDP growth to 5.3% (from 5.2% before) in 2021. This view has been supported by a rise in stock markets worldwide since the beginning of the year with US stock indexes, in particular, registering all-time highs not long ago. The markets remain volatile and after reaching record levels at the end of February have been in consolidation at lower levels since then.

The US is forecasted to grow by 4.5% and early signs such as a rise in consumer spending in February are encouraging while China's GDP growth forecast is of 8% (Up from 7.7% in earlier predictions) as a result of its success in fighting the pandemic and revert to full activity earlier than most major economies.

In Europe where the latest wave of the pandemic was problematic and forced further shutdowns the forecast is still growth at a slightly lower 4.7% (from 5.5% in earlier estimations).

The major themes for 2021 will be the recovery from the pandemic and rising yields in the bond markets. Central Banks have committed to low interest rates for the foreseeable future but their hands may be forced by rising inflation. It is still early to predict when interest rates will eventually rise, most economists seeing significant moves on in 2022 at the earliest, but markets react in anticipation and Bond yields have already priced in higher interest rates, a trend that is expected to remain in the fixed income markets.

Caution is still recommended as volatility remains at very high levels and downturns in markets may happen at any time. However, optimism seems justified as long as the vaccination efforts are successful and economic activity returns to pre-pandemic levels.

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