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5th May 2021

Market Update

Tech Jitters on Rate Expectations

Janet Yellen, the US Treasury Secretary (and former Chair of the Federal Reserve), created a mood of fear amongst technology stocks on Tuesday, after commenting that interest rates may need to rise to prevent the US economy from overheating. Markets initially panicked as they assumed she was making reference to a near term rate rise in reaction to the £1.9tn stimulus already enacted, but they then staged a partial recovery. A clarification later in the day from Yellen stressed that her comments were instead focused on the action that would be needed in reaction to the planned $4tn of infrastructure and welfare spending over the next 10 years.

A mountain out of a molehill, then? Perhaps - if you're feeling generous. But, if you consider the reaction of markets to the mere hint of inflationary pressure and a rate rise, then it appears pretty indicative of what market trends could develop when rates do rise.

The debate of the prospects for highly valued, high growth, technology companies has been one at the forefront of markets in recent months and this event highlights how the era of tech dominance could be reaching its end.

Crypto Mania

Another area of the market that continues to cause noise is cryptocurrencies, and now, specifically, Dogecoin. Dogecoin was originally launched as a less than serious rival to Bitcoin, and is often seen as a tongue-in-cheek swipe at the excesses of crypto. Nonetheless, it has now become hot property, with the price surging. A single Dogecoin was worth $0.05 at the start of April and has now jumped $0.67 (at the time of writing).

Such a jump highlights the levels of excitement present in some areas of financial markets. Taken with the example of GameStop from earlier this year, with its rapid surge and subsequent crash, it also highlights the increasing ability of internet trends to develop into large investment stories. Not that we expect the moves of Dogecoin to impact wider markets, but such unrestrained behaviour should be taken as a warning sign. With liquidity flooding the market as a result of government and central bank stimulus packages, whether this money is used effectively in delivering economic growth, or whether it results in obscure bubbles emerging is an important factor to monitor.

Elections – All Eyes on Scotland

Millions of voters will head to the polls tomorrow across a wide range of elections. In England and Wales, the results are unlikely to have any large impact on markets. While the results will either build or dent confidence in Boris Johnson's leadership, there is unlikely to be anything which creates a change in policy.

In Scotland, however, the scale of the SNP's assumed victory will be worthy of close consideration. Should Nicola Sturgeon achieve an outright majority, or at the least should there be a majority coalition of independence backing parties, then the question of a second independence referendum will be thrown into sharp relief.

While Boris Johnson is likely to initially refuse a referendum in any scenario, the stronger the victory, the more pressure the Prime Minister will be under to eventually relent. If we were to eventually reach this point, then weakness in the pound could be expected, as occurred around the time of the first referendum in 2014, and so don't be surprised if a small prelude is experienced should Scottish independence appear a step closer in the coming days.

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