Wealth Management
Weekly Market Update

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Market Update

Global markets were again positive for the week, although with global yields falling markedly, it was the growth and bond-proxy sectors which were positive, with healthcare and IT the standout gainers. Meanwhile cyclical stocks, which have seen upturned performance since the positive vaccine news in November, had a poor week. Financials, materials and industrials all fell, with energy essentially flat despite oil gaining +1.9% in US Dollar terms. Gains were largely even across regions, with US and UK stocks up +0.9% in Sterling terms. European equities gained the most, up +1.2%, while emerging market equities gained +0.5%. Japanese equities were flat in Sterling terms but down -0.3% in local terms. Markets appear to be sanguine about inflation, despite data points such as a 5% US CPI YoY increase in May, agreeing with the Fed that such increases are likely to be transitory. As such US, UK and German 10Y yields fell 8, 10 and 6 bps respectively, while gold fell -0.7% in US Dollar terms.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.9%	▲ +0.9%	▲ +1.2%	▲ +0.9%	▲ +0.5%	▶ 0.0%	▲ +0.9%	▼ -0.4%

all returns in GBP to Friday close

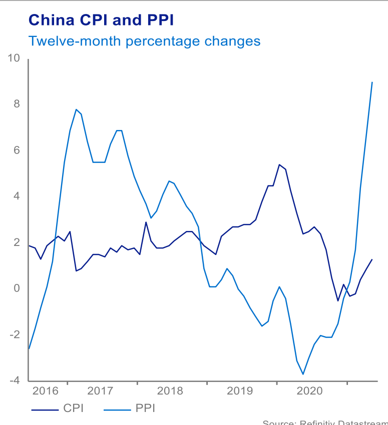
Macro News

- Exports from China grew by 27.9% YoY in May, easing from a 32.2% surge in April. This marked the eleventh straight month of increase in outbound shipments, as more countries reopened their economies. Imports to China jumped 51.1% YoY in May, after a 43.1% rise a month earlier. This was the steepest increase in inbound shipments since January 2011, amid strengthening domestic demand, surging commodity prices and a low base effect from last year.
- Annual inflation in the US accelerated to 5% in May from 4.2% in April. It is the highest reading since August 2008 amid low base effects from last year when the coronavirus pandemic hit the US economy hard, rising consumer demand as the economy now reopens, soaring commodity prices, supply constraints and higher wages as companies grapple with a labour shortage.
- The UK trade deficit shrank to £0.9 billion in April from £2 billion in the previous month. Exports advanced 2.5%, as goods shipments rose 3% and services sales went up 1.9%. Meanwhile, imports advanced at a slower 0.4%.

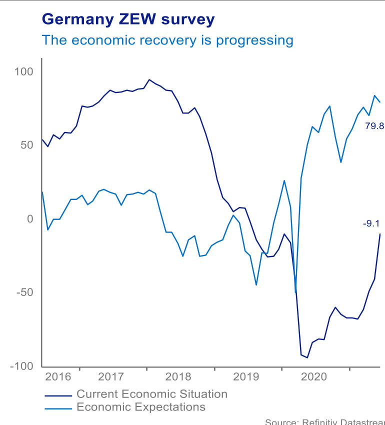
The Week Ahead

- Inflation figures for the UK will be released this Wednesday. Consensus estimates inflation to rise to 1.8% due to the rapid resumption of economic activity across the country.

Week in Charts



China's producer prices rose by 9% YoY in May, accelerating from a 6.8% increase in the prior month and above market expectations. This was the fifth straight month of increase in factory gate prices and the steepest pace since September 2008, amid a faster recovery in domestic production and rising commodity prices.



The ZEW Indicator of Economic Sentiment for Germany fell to 79.8 in June from an over 21-year high of 84.4 in May, but still remains at a very high level. On a positive note, the indicator for the current economic situation jumped to -9.1 from -40.1, back to pre-pandemic levels. Due to the very high economic expectations, the outlook is now much more positive than in summer 2019.

View From the Desk

The equity market has been in consolidation mode for the past two months, while the bond market has been stable and as indifferent to inflation fears. As a result of the market's Austen-esque summer idleness, investor attention unsurprisingly reverts to the forever-war that is Brexit.

With yet another looming deadline, that of 30 June when the UK is supposed to implement and monitor a series of measures in the Irish Sea, the British PM is faced with a dilemma that has always been present since the days of the referendum: risk breaking with the EU and the US and shoulder a 'hard border' between Eire and Northern Ireland, or risk the unity of the United Kingdom to appease allies? With both solutions equally unpalatable, Mr. Johnson pushed for a compromise; so-called 'smart' solutions which should in theory prevent EU goods from entering or exiting N. Ireland without proper dues, but without the political anathema of 'visible' borders. Unsurprisingly, European leaders who have found themselves at odds with UK governments over an increasing range of issues in the past decade, are unwilling to engage in talks about 'creative' solutions to the problem and insist on the letter of the agreement signed only a few months ago.

That both sides have been schooled to the perils and dead ends of 'positional negotiation' (sticking to a fixed position and looking at chinks in the armour of the other side to produce a 'win') is a given. Reluctance to engage pragmatically should be perceived as nothing more than visible proof that the climate between the former trading partners is simply not conducive to negotiations.

To blithely assume that things will correct themselves might be misguided. At Angela Merkel's twilight and until such time as her successors manage to reassert themselves at the helm of Europe, French positions may well dominate the agenda, a year ahead of France's own election. Also, portfolio managers should note that maintaining the Good Friday Agreement could be higher up the American agenda than maintaining the 'special relationship', which was built on the premise of the UK being the gateway to Europe.

With many issues still unresolved, the most profound of which being the future of cross-border financial services, at the very least investors should call Brexit what it is: the path to a trade war. Whether that war will be averted remains to be seen. What does this mean for investors? Equity markets, which have assigned much lower valuations to UK stocks comparative to other regions, probably will not be caught unprepared and could in fact gain from a Sterling devaluation. Bond markets are indifferent, dancing to the tune of central banks. However, we wouldn't be too surprised if investors question whether the Pound, which is still near post-Brexit highs, is fairly valued, especially as other countries have caught up on vaccination levels.

David Baker, CIO

Important information

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