Wealth Management
Weekly Market Update

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Published 05 July 2021

Market Update

Global yields fell last week on concerns about the spread of the delta variant and its possible effect on the ability of economies to recover from the pandemic. US 10Y yields fell 10bps to 1.424%, with UK and German 10Y yields also falling 7.5 and 8bps respectively. The result for global stocks was mixed and largely dependant on the sector breakdown of each regions' equity markets. IT, telecoms and healthcare rallied, benefitting from a drop in yields. In contrast the more cyclical sectors (materials, financials and energy) fell on concerns for further disruption to the global economy. The US, which has a significant tech weighting, gained +2.4% in Sterling terms. However the UK, Europe and emerging markets all fell -0.2%, -0.4% and -1.0% respectively. Sterling was mixed, falling -0.4% vs the US Dollar but up marginally vs the Euro. In US Dollar terms, gold and oil gained +0.3% and +1.2% respectively.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.2%	▲ +2.4%	▼ -0.4%	▲ +1.4%	▼ -1.0%	▲ +0.1%	▲ +0.7%	▼ -0.4%

all returns in GBP to Friday close

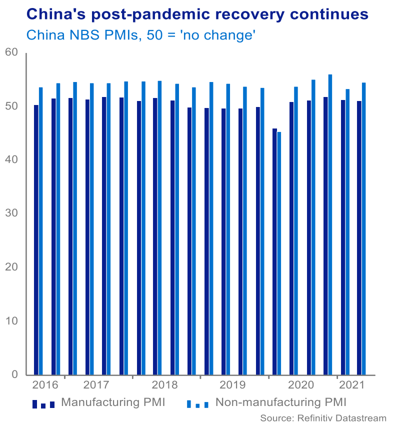
Macro News

- The American economy added 850k jobs in June, the strongest job growth in ten months, and well above market forecasts of 700k. Notable job gains in June occurred in leisure and hospitality (+343k) as pandemic-related restrictions continued to ease in some parts of the country. Still, nonfarm payroll employment is down by 4.4% from its pre-pandemic level in February 2020. Labour shortages continue to weigh on capacity production as many companies struggle to hire employees as enhanced unemployment benefits, ongoing child care responsibilities and health concerns may discourage some workers from finding a job.
- The official NBS Manufacturing PMI for China edged down to 50.9 in June from 51.0 a month earlier and compared with market expectations of 50.8. Non-manufacturing PMI for China dropped to a four-month low of 53.5 in June from 55.2 in the previous month, amid an outbreak of Covid-19 in China's major export province of Guangdong.

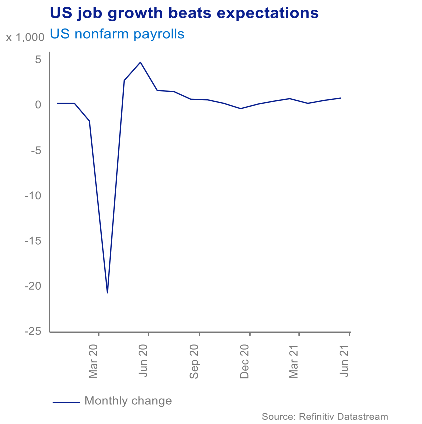
The Week Ahead

- The US central bank's FOMC minutes will be released this Wednesday. The minutes are especially awaited as the central bank saw a hawkish shift in the meeting toward expecting two interest rate hikes by the end of 2023.

Week in Charts



China's manufacturing PMI met expectations while the nonmanufacturing PMI came in weaker than expected, which may have been due to a resurgence of Covid-19 infections in the southern province of Guangdong. Overall, the June PMI readings remained in expansionary territory.



According to the US Department of Labor, nonfarm payrolls increased by 850,000 in June. That was better than the 700,000 gain expected by economists.

View From the Desk

Visibility about the future is as low as it has ever been. In recent memory it is difficult to recall a market and economic environment with such a low degree of consensus amongst investors and business leaders. Even as vaccinations are bringing the world closer to the end of the pandemic, uncertainty is everywhere to be seen. It is evident in inflation scenarios, where experts predict anything from 20's or 70's style hyperinflation to outright deflation. Growth, even in the next few months, is equally uncertain. The International Monetary Fund (IMF), the Organisation For Economic Cooperation and Development (OECD), the World Bank, the Bank of International Settlements, Central Banks and fiscal watchdogs, all equipped with some of the finest economic minds in the world, are changing their forecasts significantly every few weeks.
Uncertainty is evident in supply chains. The global stocking/unstocking cycle has been disrupted, as economies open up and close down without warning. Complex products, like cars or computers, rely on functional supply chains to produce the thousands of parts needed for assembly. Purchasing managers can't plan, so they order at the last minute. Without planning, costs skyrocket and lead and delivery times are extended to the point of nearly breaking supply chains.
Uncertainty is evident in investments. While headline indices remain at all-time highs, portfolio managers stick with the sure winners, once again growth stocks. Income stocks on the other hand, where investors absolutely need a modicum of certainty about future cash flows, suffer. As the bond market is dismissing all notions of future inflation, the oscillating performance of gold and value/growth equities suggest less certainty.
The pandemic, eighteen months already, is leaving the world in disarray. The objective for asset allocators, at this point, or any other for that matter, is not to predict the future. It is to prepare for eventualities. We have spent the last few months mapping out growth and inflation scenarios and looking at what these logically mean for risk assets. From a return to before 2008, to growth managed by the state, to stagflation to the return of 'secular stagnation', we have looked at the past and reasoned about what the future might look like under all of these scenarios. While we can't accurately predict where the world will go, we have made sure our portfolios are resilient and prepared. We have evened out our growth and value exposure, focused on managers with a proven ability to create alpha, with any 'bets' taken only in high conviction and low downside positions, like an overweight to UK equities and an underweight in bonds.

David Baker, CIO

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