Wealth Management
Weekly Market Update

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Market Update

Global equities fell -0.3% last week in Sterling terms, with a stark dispersion in returns. UK equities fell the most, down -1.6%, with US and European equities falling -0.4% and -0.3% respectively. Energy stocks were the worst performing globally, with financials also weak, both of which contributed to the UK's underperformance. However Japanese equities rose +1.7% and emerging market equities +2.3%, both making up ground having underperformed in recent weeks. Continued dovish comments from central banks saw yields continue to fall, with US 10Y Treasury yields down nearly 7bps. There was also a flattening of yield curves across developed markets. In Sterling terms Gilts gained +0.7% and global bonds +0.5%. OPEC agreed to a cut in production, although this did not stop oil falling -3.7% in US Dollar terms. Meanwhile gold gained +0.2% in US Dollar terms.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -1.6%	▼ -0.4%	▼ -0.3%	▼ -0.3%	▲ +2.3%	▲ +1.7%	▲ +0.7%	▼ -1.0%

all returns in GBP to Friday close

Macro News

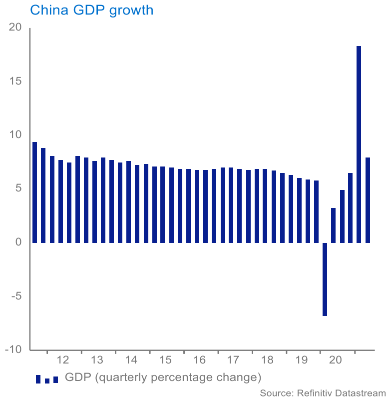
- The Chinese economy advanced 7.9% year-on-year in Q2, slowing sharply from a record 18.3% growth in Q1 and missing market consensus of 8.1%. A slowdown in factory activity, higher raw material costs, and new Covid-19 outbreaks in some regions all weighed on the recovery momentum. China has set an economic growth target of 'above 6%' for 2021 and analysts generally believe the country is on track to meet the growth target, although the economy is expected to slow slightly in the second half of 2021 as consumers globally start to spend more on services, hitting China's export sector.
- Annual inflation in the UK increased to 2.5% in June 2021 from 2.1% in May, above market forecasts of 2.2%. It is the highest inflation rate since August 2018, with transport making the biggest upward impact (7.2%) while a low base effect from last year is also a factor. The BoE predicts inflation will exceed 3% although price pressures should be transitory.

The Week Ahead

- The European Central Bank meets on Thursday to discuss what guidance it should give on the path of interest rates and bond purchases. The ECB is widely expected to shift its guidance to indicate it will be more persistent in maintaining its monetary stimulus even after inflation rises above its target.

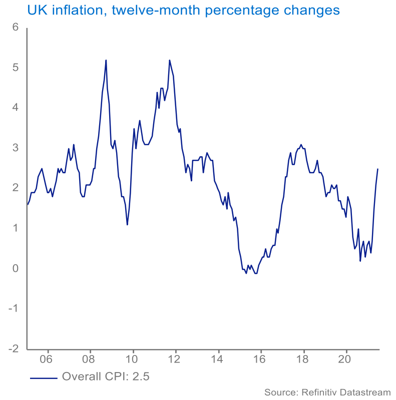
Week in Charts

China's economy on track for recovery
China GDP growth



Second quarter GDP was 7.9% higher than a year earlier, compared with YoY growth of 18.3% in the first quarter. The high growth in the first quarter reflected an almost complete halt in economic activity in early 2020 after the Covid-19 pandemic erupted in China and forced the government to impose a nationwide lockdown.

Britain's inflation rate rose sharply in June
UK inflation, twelve-month percentage changes



Britain's inflation rate rose sharply in June, exceeding expectations and adding to pressure on the Bank of England to take the rise in prices more seriously. Higher commodity prices contributed to the increase through rising costs at petrol pumps, but the causes of the increase in inflation in June were widespread, with only healthcare services acting as an anchor on the rate.

View From the Desk

Last week saw stronger aggregate demand and, expectedly, more inflation across the board. It also featured a soothing speech by Jay Powell that inflation is temporary, although a growing number of investors harbour doubts as to whether this reflects an independent estimate or the preference of a central bank with no exit strategy from financial repression. However, the important news of the week is reflected in the dichotomy between the growing number of Covid-19 cases worldwide and further easing of restrictions. On the one hand, the Delta variant is spreading across the globe and vaccination levels are low. On the other, governments in the West are now exhibiting signs of Covid-weariness. The political and economic toll of movement restrictions for over a year is tilting the scale towards economic re-openings, even at the risk of higher mortalities and stricter closures in the Autumn.
The second half of 2021 may feature a less cautious approach against the pandemic especially from developed nations. The strategy shifts from 'beating the virus' to 'learning to live with Covid'. In terms of inflation, supply pressures, further variants, vaccination rates, freedom of movement, fiscal and monetary stimulus, and bottom-line earnings, the implications may even be significant enough for investment managers and asset allocators to eventually consider a re-rating of risk assets in the foreseeable future.

David Baker, CIO

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