Wealth Management
Weekly Market Update

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Market Update

Developed markets were off slightly over the course of the week. US technology companies registered a new high during the week as Microsoft and Alphabet recorded strong Q2 earnings, but Amazon's miss on revenues pulled the technology index down slightly on Friday. In the US and abroad the rise of the delta variant is holding markets back as investors are concerned about how it may derail the economic recovery. In local currency US equities were down -0.1% on the week, Europe was down -0.3% while the UK eked out a small gain of +0.1%. The biggest faller was China, where equities fell -3.5% due to concerns about the government's increasing interference in the technology and education sectors. GBP was up 1.1% against USD reflecting the UK's shedding of Covid restrictions while the US is hampered by low vaccination rates in certain states. Gold was down -0.3% while oil recovered some of the previous week's loss and was up +1.3%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.1%	▼ -1.4%	▼ -0.3%	▼ -1.1%	▼ -3.5%	▼ -1.1%	▲ +0.2%	▲ +1.1%

all returns in GBP to Friday close

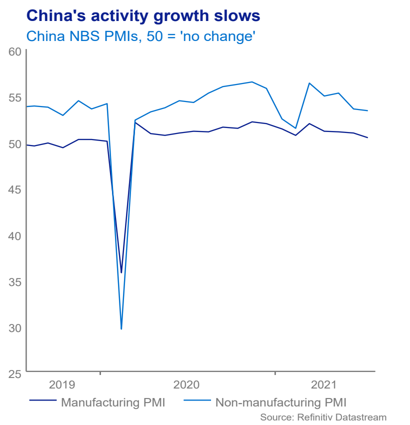
Macro News

- The NBS Manufacturing PMI for China fell to 50.4 in July from 50.9 a month earlier and missing market expectations of 50.8. This was the weakest pace of increase in factory activity since a contraction in February 2020, amid the Delta variant of Covid-19 outbreak in the eastern city of Nanjing, higher material cost, and extreme weather. The NBS Non-Manufacturing PMI for China dropped to a five-month low of 53.3 in July 2021 from 53.5 in the previous month.
- The US economy advanced an annualized 6.5% on quarter in Q2 2021, well below market forecasts of 8.5%. Personal consumption expenditures grew as vaccinated Americans travel and engage in activities that were restricted before. The rapid spread of the coronavirus delta variant, supply-chain disruptions, shortage of workers and a cooling housing market are seen weighing on the growth for the rest of the year.

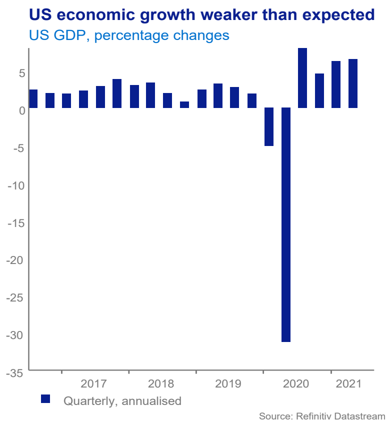
The Week Ahead

- The Bank of England interest rate decision will be made this Thursday. At the June meeting, members voted unanimously to keep its benchmark interest rate on hold at a record low of 0.1% and by a majority of 8-1 to leave its bond-buying programme unchanged as widely expected. It is expected that the BoE will keep interest rates on hold despite rapidly rising above target inflation.

Week in Charts



China's factory activity expanded at a slower pace in July due to higher raw material costs, equipment maintenance and extreme weather, adding to concerns of a slowdown in the world's second-biggest economy.



The US GDP data for Q2 2021 fell short of economists' forecasts of 8.5% growth on an annualised basis, and compared with a 6.3% increase during the first quarter.

View From the Desk

Covid-19 has not only disrupted supply chains. It has also wreaked havoc amongst economists and other professional forecasters who fall wide of the mark in terms of projections. Last week both Amazon -a bellwether for the economy- and US GDP significantly missed growth projections. Amazon revenue for Q2 rose by 27%, significantly below the 41% it grew in the same quarter last year, and forward guidance was 'light'. The US economy in Q2 grew at an annualised pace of 6.5%, below consensus of 8.5%. Markets moved slightly on the news. Amazon lost 7.5% causing however just a half percent drop for the S&P 500 which has seen a great overall earnings season. By and large indices are still near their all-time highs. This is because investment managers understand that forecasts are, at this point, immaterial.

To produce a forecast, analysts are based on seasonal data. Evidently, seasonality is no longer a concern for the global economy whiplashed by Covid-19. Business owners have been front-loading purchase decisions because of high inflation and long delivery times, hoping that some of their cargo will have arrived before the holiday season and at a price that is still within reason. This is further elongating delivery times, causing more supply disruptions and further shortages. The usual restocking-destocking cycle driving global growth is seriously disrupted. The disruption is set to persist, maybe into 2023 according to Intel. Front-loading would result in higher growth now, but slower growth going forward. Inflation is also causing a surge in demand for homes, driving prices up for the final product and its building materials.

The course of the pandemic is further exacerbating the situation. The Delta variant is proving more vaccine-resistant than originally thought, and while vaccines protect from serious illness, the US-based Centers for Disease Control and Prevention says that they don't protect against infection or contagion. Those who have not received both doses of the vaccine are at serious risk, and new variants are just around the corner. The 'Epsilon' variant is reported to be as transmissible as Delta and even more resistant to vaccines. For Western societies this means more masks, more disruption for in-doors activities, more fear of using public transportation or returning to the office. For less developed nations, where vaccination rates are well below 20%, it could mean further plant closures and more delays. Eventually, it could also mean border closures and curbs on exports, which may also impact materials sensitive to creating more vaccines. It may be hard to admit, but the virus is simply gaining ground on science.

Back to the West, this could mean lower effective vaccination rates, delays in repeat shots, shortages of goods and, it follows, slower growth, which is exactly what central banks expect and why they delay decisions to taper quantitative easing or raise interest rates.

The situation puts business owners, professional forecasters like equity analysts and central banks behind the curve. The world is simply too much in flux to predict over the medium term. What does this say about markets? As long as quantitative easing persists, asset allocators may assume that asset prices could well remain broadly elevated over the shorter term. As for the longer term, the debate is whether 'living with Covid' will eventually become the 'new normal', whether this will merit a re-rating of assets, and what we will do with all the debt once the smoke clears.

David Baker, CIO