Wealth Management
Weekly Market Update

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Market Update

Global equities rallied last week, with US equities leading the way, up +1.4% in Sterling terms, boosted by 87% of US firms beating earnings expectations. European equities were up a similar amount in local terms, however up only +0.4% in Sterling terms. UK equities were up +0.2%, however Japanese equities fell -1.3%. With yields rising across developed markets (9 bps in the UK, 11 bps in the US and 3 bps in Germany), financials had a strong week, with IT and energy also performing well. Sterling was flat vs the US Dollar but gained +0.8% and +0.7% vs the Euro and Yen respectively. Both gold and oil saw significant declines, down -3.9% and -4.2% respectively in US Dollar terms.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.7%	▲ +1.4%	▲ +0.4%	▲ +0.9%	▲ +0.2%	▼ -1.1%	▼ -0.6%	▼ -0.1%

all returns in GBP to Friday close

Macro News

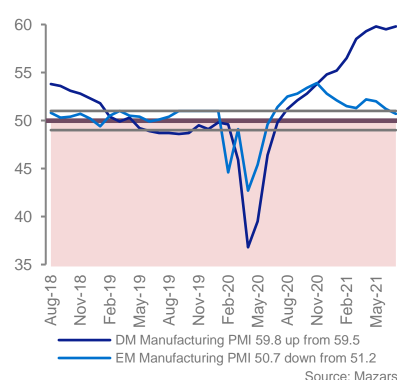
- The hawkish rhetoric from the Bank of England on Thursday surprised market participants with the announcement that rates would likely rise in the next two years. While this will increase financing costs for the UK government and corporates it is still expected that rates will stay low on an absolute basis.
- UK PMI data continued to fall, indicating a slowdown in the rate of economic expansion. Although this marks a deceleration in economic activity in the UK, the latest PMI numbers in the region of 59 are still well into expansionary territory and do not signal an impending recession.
- The bid by a private equity group for the British supermarket Morrisons was increased further last week. This is further evidence of the good value offered by UK PLC following Brexit and the pandemic that has attracted interest from international investors.
- UK consumers faced a reminder of rising costs as the UK energy regulator raised the price cap on energy bills. This reflects the increased wholesale gas prices.

The Week Ahead

- UK GDP for Q2 will be released on 12 August and is expected to show a rebound in economic activity as the country relaxed measures designed to slow the spread of Covid.
- In the US CPI data for July will be released on 12 August to give a reading on how consumer prices are behaving. This will be closely monitored to gauge whether the Federal Reserve will bring forward interest rate rises.

Week in Charts

Developed economies accelerating
Manufacturing PMIs in expansionary territory



Source: Mazars

Vaccine roll-outs in the developed world have allowed re-opening of economies. In particular manufacturing is expanding quickly and has decoupled from levels in emerging economies where Covid is dampening activity, although the same is true across all sectors.

Sterling rallies on hawkish central bank comments
Trade weighted Sterling

Source: Mazars

Sterling has been strong YTD on a strong vaccine programme allowing accelerated removal of Covid restrictions and a resumption of normal economic activity. Last week saw renewed GBP strength as the Bank of England announced that interest rates would likely rise within the next two years, sooner than market participants had previously expected.

View From the Desk

Last week saw a negative body of evidence amassing against present market euphoria. A very good jobs report in the US wrought worries that the Federal Reserve might 'taper' (reduce) quantitative easing after September. Meanwhile, the Delta variant's spread has pushed back a lot of return-to-office plans and continues to put strains on both the recovery and supply chains. In China, the crackdown on tech giants persists with little concern as to how these moves will affect western consumers. And in Europe the consequences of climate change are becoming all too real with the hottest summer in thirty years causing massive wildfires and loss of life and property all across Spain, Italy, Greece, Cyprus, Turkey and Ukraine.

To explain the complete market apathy on current events (US equities are near all-time highs), one has to remember that fundamentally, stock market investing is about confidence in future corporate earnings. The current earnings season is seeing an 88% rise in profits and 87% of top and bottom-line announcements beating expectations.

But don't geopolitics affect future earnings? The truth of the matter is that asset allocators have always been cautious with the Chinese brand of capitalism, which is why they habitually ignored the breakneck pace of growth and continued to treat the world's second largest economy as an 'Emerging Market'. And as for climate change, realistically the game of 'following the investment money' outweighs concerns as to whether the Paris accord's emission targets are realistic any more, or whether reducing massive global fossil fuel subsidies is even an attainable goal.

Which leave us with the tug-of-war between the Fed's quantitative easing, the economic recovery, inflation and the 'Delta x-factor'. On the one hand, the Federal Reserve sees potential for a persistent recovery and labour shortages as evidence of demand-inflation and cause to contemplate asset purchase reductions. On the other, the 'Delta' variant is not only pushing back plans for return to normality, but it is reminding us that new and more threatening variants could follow, which could topple the economic recovery altogether.

Fed economists may be trained to stay ahead of economic developments, but they have to accept that as long as the virus drives the global economy, they will be making decisions in the dark. With such low visibility, any decision carries an abnormal amount of risk for an organisation too used to defining its environment. Raise rates and risk a serious policy error if the pandemic persists. Persist with accommodation and risk remaining too far behind the inflation curve.

Investors should not fight the Fed. But they should also not attribute super-human abilities to its decision making either.

David Baker, CIO

Important information

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