Wealth Management
Weekly Market Update

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Market Update

US equities ended the week on a positive note, but the omnipresent uncertainties of the Delta variant, Fed tapering, and geopolitical issues put the other major indexes in the red for the week. Emerging market equities were down -2.9% as China's continued regulatory crackdown on big businesses, mainly the technology sector, remained a drag on stocks in the region. UK, European and Japanese equities were down -1.6%, -0.6% and -2.4% respectively. Globally, stocks were up +0.3%, with the healthcare, utilities and information technology sectors contributing strongly. The US 10Y Treasury yield was down 2.8bps finishing the week at 1.255%. UK 10Y Gilt yields also fell -5.2bps, finishing the week at 0.524%. Sterling fell against major currencies, down -1.7% vs the US Dollar and -1.0% vs the Euro. In US Dollar terms gold gained +0.1%, while oil fell -8.9%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -1.6%	▲ +1.2%	▼ -0.6%	▲ +0.3%	▼ -2.9%	▼ -2.4%	▲ +0.4%	▼ -1.7%

all returns in GBP to Friday close

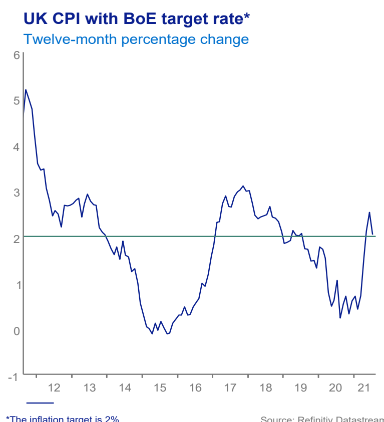
Macro News

- The consumer price inflation rate in the UK eased to 2% year-on-year in July, from a near three-year high of 2.5% in the previous month and below market expectations of 2.3%. The rate fell back to the Bank of England's target, largely reflecting base effects as inflation rose rapidly in July 2020, and dragged down by a slowdown in cost of clothing, footwear and a variety of recreational goods and services. Meanwhile, prices of second-hand cars continues to rise, helped by increased demand as consumers stay away from public transport and new supply tightens. The annual core CPI, which excludes volatile items such as energy and food, rose 1.8% in July, also below June's 2.3%.
- Japan's GDP grew 0.3% QoQ in Q2 2021, above market consensus of 0.2% growth and following a 0.9% expansion in Q1, with domestic demand contributing 0.6% points to the GDP growth. Private consumption, capital expenditure and government spending all rebounded, as the economy recovered from the Covid-19 initial hit. At the same time, exports rose for the fourth straight quarter while imports grew for the third quarter in a row. On an annualised basis, the economy expanded 1.3% in Q2.

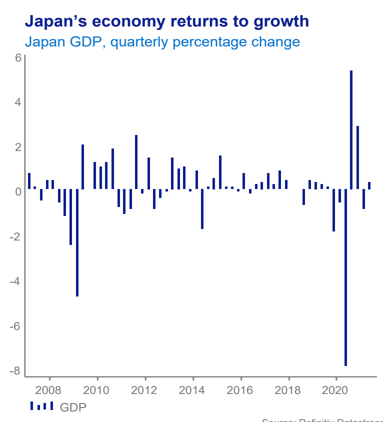
The Week Ahead

- U.S. personal income and spending data will be released this Friday. Analysts expect to see a further increase after spending accelerated more than expected in June, reflecting a ramp up in outlays on services, while incomes rose 0.1% following two straight declines.

Week in Charts



UK inflation slowed more than expected in July as price growth for clothing, footwear and recreational goods eased, but it is forecast to pick up again over the rest of the year.



Japan's economy grew 0.3% in the second quarter from the previous three-month period, equal to an annualised pace of 1.3%, the country's cabinet office announced on Monday.

View From the Desk

Last week there was a series of data points of concern including weak US retails sales, Chinese economic data, a fall in consumer and business confidence, rising Covid cases and the disturbing news around the US withdrawal from Afghanistan. However it was the news that the US Federal Reserve was planning to start tapering its over $8tn balance sheet which appeared to be the main reason for falling equities last week. Then on Friday Dallas Federal Reserve President Robert Kaplan said he was watching carefully for any economic impact from the Delta variant of the coronavirus and might need to adjust his views on policy "somewhat" should it slow economic growth materially. The result? US equities finished Friday sharply higher. As has been the case for the majority of the post-GFC period, macroeconomic data continues to be a secondary consideration of markets to the actions of the Fed, and buying the dips continues to be a strategy that pays off for investors.

However, Kaplan's comments should be taken as they are – a consideration that the Fed needs to be flexible depending on the situation. Tapering is likely to start at some point this year, although any 'normalisation' of the balance sheet is destined to take decades. Indeed the Fed has started tapering several times over the past decade, only to reverse course and increase asset buying (the balance sheet went from c.$4tn to c.$8tn during the Covid crisis). As long as the Federal Reserve has such a large level of assets, markets are going to have to pay close attention to its actions.

As we have noted before, the prime reason for any change to the Fed watching dynamic is if the world experiences a prolonged bout of uncomfortably high inflation. In this situation the Fed would need to consider both interest rate rises and a significant reduction in its balance sheet. We are paying close attention to inflation, however continue to believe such a persistent rise in inflation unlikely. We expect that the repairing of supply chains over the next couple of years will see inflation fall back to more normal levels, while demographics and continued high levels of globalisation, despite some recent de-globalisation efforts, are long-term deflationary factors that have not gone away.

The challenge now for the Fed (assuming inflation doesn't prove to be a long-term issue) is to condition markets into accepting some levels of tapering. Even before Covid, the Fed reversed course in early 2019 as markets started to react badly to its tapering efforts. We expect this push and pull dynamic to continue to be a prime driver of markets in years to come.

David Baker, CIO

Important information

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