Wealth Management
Weekly Market Update

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Market Update

US, UK and European equities were relatively unchanged in Sterling terms last week, faring -0.1%, +0.1% and -0.1% respectively, amid concerns that the rate of global growth could start decelerating. Japanese equities were up +4.0% despite the resignation of Prime Minister Yoshihide Suga, while emerging market equities were up +2.7%, positive for a second week in a row after the Chinese tech sector had fallen significantly in previous weeks. Globally, stocks were up +0.3%, with energy and financials being the only sectors exhibiting losses. The US 10Y Treasury yield was down -1.5bps finishing the week at 1.322%. The German 10Y Bund yield was up +6.2bps amid higher than expected inflation in the euro area. Sterling was up +0.8% against the US Dollar and unchanged relative to the Euro. In US Dollar terms gold lost -0.1%, while oil prices rose slightly by +0.1%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.1%	▼ -0.1%	▼ -0.1%	▲ +0.3%	▲ +2.7%	▲ +4.0%	▼ -0.6%	▲ +0.8%

all returns in GBP to Friday close

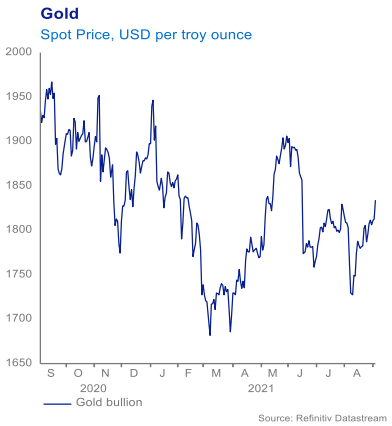
Macro News

- The euro area inflation rate in August is expected to rise to 3.0% according to flash estimates, up from 2.2% in July and higher than the 2% ECB target. Energy is estimated to be the main driving force, expecting a 15.4% increase year-on-year, while core inflation stood at 1.6%, 0.3% higher than July 2021.
- Japan's industrial production dropped by 1.5% in July on month-on-month basis after surging 6.5% in June. Car production was the greatest drag on factory output as automakers cut production due to scarcity of parts. In fact, Toyota motors has announced that it will cut production by 40% in September as it is unable to secure certain parts essential for production.
- The US Labor Department stated on Friday that the non-farm payrolls for August has increased by 235,000, faring far below the 720,000 that was expected by the market. Meanwhile, the unemployment rate fell to pandemic-era low of 5.2% while weekly jobless claims fell again to their lowest level since March 2020. August manufacturing PMI data exhibited a marked improvement mainly driven by higher production and a rise in orders.

The Week Ahead

- The ECB monetary policy meeting will take place this week, with the market eager to hear whether inflation is still considered transitory by the majority of ECB policymakers. German industrial productions will also draw plenty of the market's attention.

Week in Charts



The price of gold has had a steep rise after having dropped to four-month low levels earlier in August. This latest trend seems to be affected by slower growth anticipation driven by the sustained global supply chain disruptions.

August: The UK manufacturing PMI fell slightly to 60.3 down from 60.4 in July while the services PMI fell to 55.0, below the 59.6 July level. UK manufacturers continue to face supply chain difficulties while services seem to be partly affected by a normalisation of demand since the release of the lockdown measures.

View From the Desk

Last week, our central theme was the disconnect between the Fed's bullish economic comment and its own, fairly dovish actions. We posited that actions speak louder than words and that the world's de facto central bank was positioning for macroeconomic volatility. The data confirmed as much throughout the week: US payrolls came in at a third of expectations and PMI indices in China and India suggested manufacturing stagnation. Manufacturing reports suggest that export orders are losing momentum, potentially indicating industrial weakness for the west in the next few months. Payrolls continue to be affected by the advance of the Covid-19 Delta variant, which keeps many parents/income-earners in a fluid condition.

Both the Fed and the ECB have been talking about tapering asset purchases. However, in this volatile environment it is difficult to see how central banks can reasonably justify the removal of accommodation. On the other hand, supply-driven inflation, a result of shortages and economic arrhythmia, could well continue to advance.

Despite the welcome accommodation, investors need to remain vigilant. There is a very thin line between monetary exuberance, driving equity and bond prices higher, and the markets realising that central banks can neither control supply-side inflation nor exit quantitative easing. When and if the latter happens, we could be looking at a paradigm shift.

In other words, it is conceivable that we are drawing closer to the end of a twelve-year course where the underlying tenet of every investor was 'Simply don't fight the Fed'. This tenet may well be replaced with 'The Fed is not the solution to literally everything', and a whole world of opportunities and risks opens up. A paradigm shift would be volatile. It would allow the central banks' political bosses less leeway to pander to the fringes and assign a greater impact and higher downside to their decisions.

However, we are not there just yet. Investors should remain diversified and patient with volatility. And portfolio managers must ensure that they are active enough to recognise opportunity and that there are more 'bets' in their clients' portfolios than just equity 'beta'.

David Baker, CIO

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