Wealth Management
Weekly Market Update

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Market Update

Global stocks were down -1.1% in Sterling terms last week amid fears of momentum fading and growth concerns due to the persistence of supply chain issues. Japanese stocks were the only region to post gains, rising by +3.8% in Sterling terms, buoyed by news of prime minister Suga stepping down and expectations of further stimulus. UK, US and European equities were all down -1.5% driven by inflation concerns and uncertainty about the economic outlook. Globally, all sectors exhibited losses apart from consumer discretionary. The US 10Y Treasury yields were up 1.7bps, finishing the week at 1.343%. German 10Y Bund yields were up +2.6bps to -0.332% after the ECB announced it would reduce the pace of its pandemic asset purchasing programme. Sterling fell against the US Dollar by -0.2% and rose by +0.4% vs the Euro. In US Dollar terms gold lost -2.1%, while oil was up by +0.7%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -1.5%	▼ -1.5%	▼ -1.5%	▼ -1.1%	▼ -0.3%	▲ +3.8%	▼ -0.1%	▼ -0.2%

all returns in GBP to Friday close

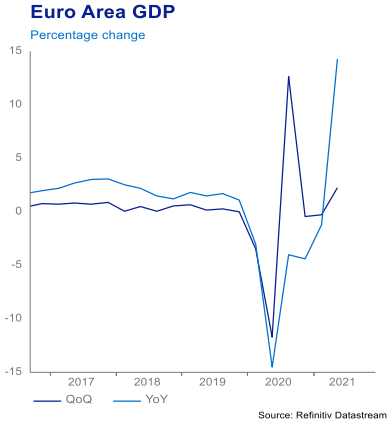
Macro News

- The European Central Bank (ECB) has decided to slow down the pace of its pandemic asset purchasing programme for the next three months. Christine Lagarde, the ECB president, insists that the Bank is not tapering rather recognising that favourable financing conditions can be maintained with a moderately lower rate of purchases.
- The Chinese Producer Price Index (PPI) in August rose 9.5% on a year-on-year basis, marking a 13-year high. The sharp rise is largely driven by higher commodity prices, raising concerns over manufacturers' profit margins as consumer price inflation does not seem to be catching up with producer price inflation.
- UK prime minister Boris Johnson has announced tax increases of £12bn a year that will take effect from next April to fund the NHS and social care. Among others this includes a 1.25% increase in national insurance contributions paid by employers and employees as well as a 1.25% rise in tax on share dividends.
- The global supply chain problems coupled with the risk of higher Covid-19 delta variant infections remain a warning sign that the recovery may not be as smooth as expected.

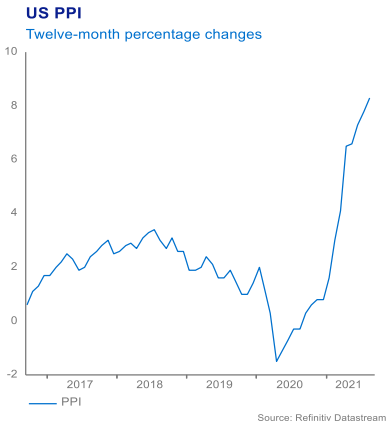
The Week Ahead

- Investors will be paying close attention to the US Consumer Price Index (CPI) release next week as it will be a significant factor for the Fed's decision making regarding its bond buying programme. US retail sales will also be on investors' radar.

Week in Charts



GDP in the Euro Area rose by 2.2% in Q2 compared to the previous quarter and by 14.3% on a year-on-year basis. The rise in household consumption was the largest contributor reflecting the lift of the lockdown restrictions earlier in the year.



The US Producer Price Index (PPI) increased in August by 0.7% from the prior month and 8.3% on a year-on-year basis, higher than initial forecasts. The rate was driven by various factors such as materials shortages, shipping bottlenecks and rising labour expenses.

View From the Desk

The entrance of Autumn marks a challenging period for investors as the dichotomy between the real and the financial economy is being stretched closer to its limits.
On the economic front, the confluence of new strains of the Covid-19 virus, the advent of the flu season, the opening of schools and a tired populace will pose a challenge for authorities and consumption in the developed world. Meanwhile, the scarcity of vaccines and lack of a global centralised policy will continue to plague supply chains in developing countries, leading to production delays and exacerbating inflationary pressures.

This economic backdrop grows increasingly difficult to reconcile with equity and bond markets at or near record levels. Zooming into equities, income and value stocks are lagging the growthier large cap leaders. For some this may be an opportunity in the medium term, others might see a sign that portfolio managers are apprehensive about the consistency of operating cash flows. From a bird's eye view the larger question in every investor's mind is whether monetary accommodation can permanently separate bullish financial expectations from a fragile economic reality.

For investors, if the answer is "yes", then investments become a game of equity 'beta' (pinning portfolios on equity indices and adjusting risk levels) and Fed watching. A risk underweight can only be tactical (short term) as long as the 'Fed put' is in effect. If the answer is "no" then one has to focus on fundamentals and wait, patient with underperformance and the sacrifice of opportunity costs possibly for years. The answer is, probably, in the middle: "monetary accommodation is the only game in town, until it isn't".

But we must not forget that we are in uncharted territory. This time is evidently different. There is no historical precedent of advanced markets supported by so much accommodation for such a long time, cancelling dire warnings and predictions of mean reversion for years. Eventually, these may become reality, but that would mean little to an investor who had heeded them all the way back in 2010, missing out on over 250% returns in US large caps.

David Baker, CIO

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