Wealth Management
Weekly Market Update

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Market Update

Global stocks were relatively unchanged in Sterling terms (down -0.7% in USD terms) last week amid investors' scepticism around supply chain issues hampering growth, elevated valuations and future monetary policy. Japanese stocks posted gains for a consecutive week, rising by +1.1%, as campaigning began for the next president of Japan's ruling LDP. UK stocks fell by -0.9% amid higher than expected inflation, while US stocks were up +0.2% driven by a strengthened US Dollar. Globally, all sectors exhibited losses apart from energy stocks which posted solid gains of +2.8%. The US 10Y Treasury yield was up 2.1bps finishing the week at 1.363%, while the UK 10Y yield was up 8.9bps reaching 0.848%. Sterling fell against the US Dollar by -0.7% and remained flat against the Euro. In US Dollar terms gold lost -1.2%, while oil was up by +4.0%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.9%	▲ +0.2%	▼ -1.0%	▼ -0.1%	▼ -1.4%	▲ +1.1%	▼ -1.1%	▼ -0.7%

all returns in GBP to Friday close

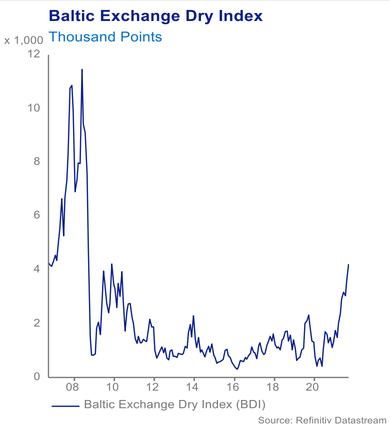
Macro News

- UK retail sales in August fell by 0.9% relative to the previous month, marking the fourth consecutive fall. Sales are 5.1% lower compared to April 2021 and just 4.5% higher than the latest pre-Covid figure back in February 2020. The figures reflect momentum fading since the easing of the lockdown restrictions as demand appears to normalise.
- Industrial production in the euro area during July was up 1.5% on a month-on-month basis, 4.2% above the Q2 level and approximately equal to the pre-virus level. Production was largely driven by chemicals and pharmaceuticals (5.3%) as well as machinery and equipment (4.3%). Auto production gained 2.7% while still remaining 24.3% below the pre-virus levels, strongly reflecting the impact of supply constraints to the sector.
- US headline CPI inflation in August edged down to 5.3% from 5.4% while core inflation fell slightly lower to 4.0% from 4.3% in July. The Delta variant seems to be putting pressure on the demand for certain services as hotel room rates fell by 2.9%m/m, airline fares fell by 9.1% and car rental price fell price by 8.5% among others.

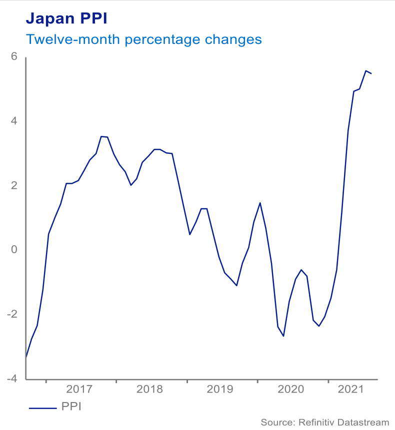
The Week Ahead

- Investors will be keeping an eye on the Bank of England's (BoE) monetary policy meeting on Thursday. Changes in rates are not expected, however markets will be paying close attention to any change in tone, in response to the most recent inflation figures.

Week in Charts



The Baltic Exchange Dry Index measures the cost of moving commodities by sea. The index has risen to its highest level since 2010, strongly reflecting the rising costs that have put pressure on manufacturers' cost of production.



The Japan Producer Price Index (PPI) was slightly down month-on-month but continued to mark a 5.5% increase year-on-year for a sixth consecutive month. The increase was largely driven by higher costs of crude oil and other raw materials.

View From the Desk

Chinese equities opened deeply negative on Monday as the controversy around the future of Evergrande, a large Chinese property developer on the verge of defaulting on its $300bn debt, is increasing. Some analysts have called it 'China's LTCM moment', referencing the 1998 collapse of a hedge fund which cascaded into a widespread panic in Asian markets.

Firstly, we don't anticipate that China will let the company fail. A managed unwinding of assets seems a much more probable outcome. Even if the Chinese state takes a 'moral hazard' approach, allowing an outright collapse, known contagion risk should be much lower than in 1998, unless western hedge funds have a large, leveraged and stealthy exposure in the Chinese firm and have ignored the warnings of the past few months.

However topical, the problem is still near the bottom of most investors' concerns about the Chinese economy. Starting with equities, the crackdown on tech has caused the Hang Seng China (Chinese large caps trading in Hong Kong) to drop 30% from its peak in February, leaving China with no firms in the world's top ten list in market capitalisation.

Then there is the problem of the economic slowdown. Last week's data on retail sales, industrial production, and capital expenditure came in significantly below expectations. Retail sales in particular registered their slowest year-on-year growth since before 1995, ex-lockdown.

The arrhythmias in the Chinese economy are also reverberating across the world. Costs to transport goods from China to the rest of the world have risen anywhere from three to nine times since pre-pandemic, exacerbating inflation pressures across developed nations.

Topping the list is the US's hard stance which did not change along with the occupant of the White House. Trade pressures have not abated and Beijing expressed their unease with the new AUKUS agreement which is set to increase western military firepower in South Asia.

Any of these problems taken in isolation may be solvable. Seen in confluence, investors get a very clear picture that the world's second-biggest economy, the leading global manufacturing and shipping hub, is experiencing difficulties as it transitions to a more consumer-centric economy and prepares to receive a global nod as the super-power of the East.

David Baker, CIO

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