Wealth Management
Weekly Market Update

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Market Update

Equities in most major markets pulled back amid inflation worries, persistent supply side issues and more contractionary anticipated monetary policy - global stocks were down -1.6% in GBP terms. US stocks were down -1.2% as uncertainty loomed around the federal debt ceiling and the approval of the USD 1 trillion infrastructure bill. EU stocks were down -1.2% amid higher than expected inflation while UK stocks were down -0.3% despite an upward revision of latest GDP figures. Globally, Energy stocks continued their upward trend for another week in a row posting solid gains of +4.9%, with the rest of the sectors pulling back. The US 10Y Treasury yield was up 1.2bps finishing the week at 1.465%, while the UK 10Y yield was up 8.2bps reaching 1.00%. Sterling fell by -1.0% against the USD. In USD terms gold rose by +1.6%, while oil was up by +3.5%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.3%	▼ -1.2%	▼ -1.2%	▼ -1.6%	▼ -0.4%	▼ -3.7%	▼ -1.5%	▼ -1.0%

all returns in GBP to Friday close

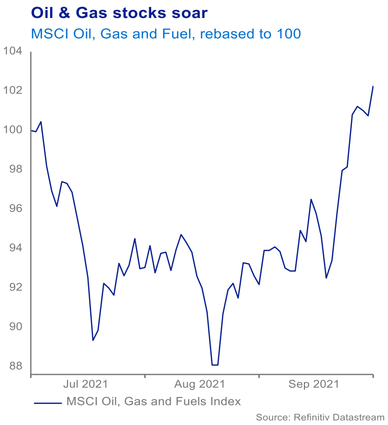
Macro News

- According to flash data, inflation in the Euro area during September is estimated to have risen to 3.4%, up from 3.0% in August reaching a 13 year high. It comes after German consumer prices rose by 4.1% in September, the highest level in almost 30 years. The rate has been largely driven by energy prices, which have risen by 17.4% up from 15.4% in August on year-on-year basis.
- The Office for National Statistics published their revised upwards GDP data. During Q2 the UK economy grew by 5.5%, up from the 4.8% as was initially estimated. The data showed that the recovery largely stalled in July while consumers seemed to have increased their savings relative to their expenditures.
- Manufacturing PMI in China dropped to 49.6 in September, faring below the 50-point threshold for the first time since February last year. The weakness across the Chinese economy was partly driven by severe power shortages and a drag across its property sector. This momentum fading in the manufacturing industry raises the alarm across global markets resulting in downward revisions of future expected growth.

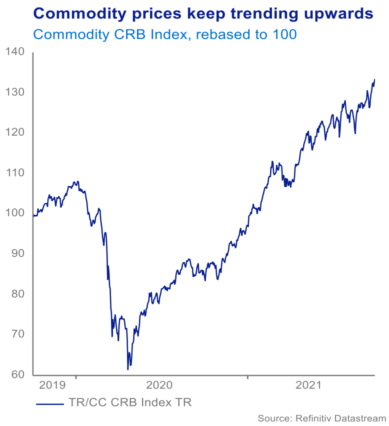
The Week Ahead

- Investors will be paying close attention to Washington where US lawmakers will address the major infrastructure stimulus package, the social spending deal as well as the federal debt ceiling.

Week in Charts



Oil and Gas stocks have rallied strongly since mid August when returns fared at 3 month lows. Their performance over the last 3 weeks has been fuelled by the gas shortages in Europe coupled with the Brent reaching 80 dollars per barrel.



Since the first months after the outburst of the pandemic prices of most commodities have not stopped rising. This has been partly passed on to consumer as reflected on the latest higher consumer price index figures.

View From the Desk

Last week saw the second -2% episode in US markets in as many weeks. Fourteen days ago, markets were worried about Evergrande, last Tuesday it was all about the political wrangling over the US debt ceiling.

Seen from a bird's eye view, the Fed has turned more hawkish in preparation to taper asset purchases. As a result, markets are now more prone to respond with volatility to rising risks, of which there's no shortage: From soaring natural gas prices to impaired supply chains threatening consumers and businesses; from a new status quo underpinning the European common currency, to political obstacles for Mr Biden's game-changing -proposed- stimulus.

Corporate earnings might have beat expectations and helped valuations down in the past three quarters, but projections going into the last part of the year augur stagnation. Meanwhile, governments are scrambling to pull back Covid-era unemployment measures and contemplate taxation increases, while the pandemic itself just entered its most dangerous season of the year.

And let us of course not forget Asset Tapering itself. The Fed has signalled it will be gradually reducing the amount of money it funnels into the markets. While still above non-QE returns, tapering has traditionally seen reduced the return for equities.
However, fact remains that for all the dangers out there, both pullbacks did not evolve into full-blown corrections and didn't last for more than a couple of days. This just confirms that there's a lot of liquidity looking for returns, and with bonds yielding negative real returns (yield minus inflation), equities are still the preferred asset for allocators.

Acknowledging the risk build-up and the fact that we are entering a period when equity returns might wind down, weighed against the overall willingness to 'buy the dips', our investment committee reduced our equity exposure from 'slight overweight' to 'equal weight'. As long as the Fed is still purchasing assets, it makes little sense to be underweight equities. But we can take some profits off the table and put them into safer assets (like gold and short-term bonds) to protect against the probability that any of those risks might trigger a wider correction.

David Baker, CIO

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