Wealth Management
Weekly Market Update

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Published 11 October 2021

Market Update

Equities in most major markets edged higher last week, partly offsetting the previous week's losses, with global stocks up +0.3% in GBP terms. US stocks were up +0.4% despite the disappointing jobs report published on Friday. European stocks were up +0.2% amid high volatility while UK stocks were up +1.0% despite the BoE's new Chief Economist raising the alarms on inflation's persistence in the coming months. Globally, energy stocks outperformed all sectors for a fifth week in a row, posting solid gains of +4.9%, followed by financials, utilities and materials. The US 10Y Treasury yield was up 15.0bps, finishing the week at 1.612%, while the UK 10Y yield was up 15.6bps reaching 1.158%. Sterling rose by +0.5% against the US Dollar. In USD terms gold pulled back by -0.6%, while oil was up by +4.1%, reaching $81 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.0%	▲ +0.4%	▲ +0.2%	▲ +0.3%	▲ +0.4%	▼ -2.7%	▼ -1.5%	▲ +0.5%

all returns in GBP to Friday close

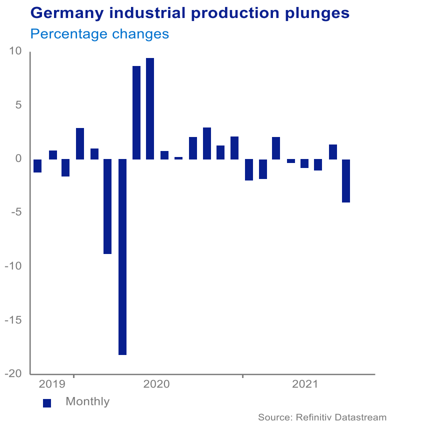
Macro News

- Euro area retail sales during August edged 0.3% higher relative to the previous month. This rise only partly offsets the 2.6 decline in July; however retail sales are still approximately 3.3% higher than pre-pandemic levels.
- According to data from the mortgage provider Halifax, UK house prices have increased at one of the highest rates over the last 15 years. The cost of the average house rose by 1.7% during September marking the fastest monthly rise since February 2007. On a year on year basis prices were up by 7.4%.
- Vladimir Putin announced on Wednesday that Russia is ready to increase the supply of natural gas towards Europe in order to stabilise soaring global energy prices. UK and European gas prices traded early last week at approximately 10 times their level since the beginning of the year.
- The US Senate has voted to extend the public borrowing limit by $480bn until December 3, providing short-term relief to investors worried about a possible default this month. Shares reacted positively to the news while yields slightly fell after the announcement.

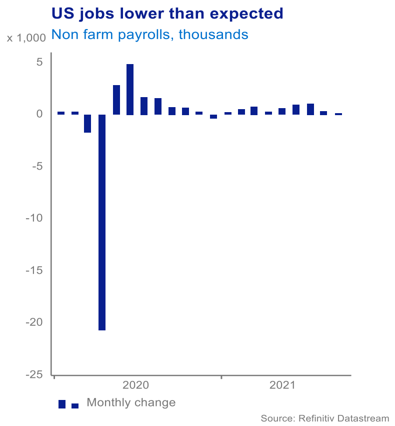
The Week Ahead

- Investors will be paying close attention to inflation data released by the US and China in addition to GDP and labour market updates from the UK. Earnings will also be in the spotlight with many financial firms publishing their numbers this week.

Week in Charts



Industrial production in Germany during August fell by 4% on a month on month basis, falling much lower than initially estimated. Production in automotive and their parts fell by 17.5% as the semiconductor shortage continues to hamper production.



Employers in the US added 194,000 jobs during September, falling short of the 500,000 expected. It was also lower than the 366,000 jobs that were added in August and well below the 561,000 monthly average since the start of the year.

View From the Desk

As inflation is rising and energy prices are soaring, central banks are preparing to deal with the possibility of having to raise interest rates to fight it. In the past three days, key Bank of England officials have noted that inflation pressures are rising and may cause long-lasting damage, prompting markets to sharply increase their UK rate expectation and the Pound to rally.

Meanwhile, the Fed has said that asset purchase tapering is on the cards in the next two months and interest rate hikes near the end of 2022, while the ECB last week noted that "inflation risks are now tilted on the upside".

The question before us is: The world's major central banks are arguably the most powerful institutions run by unelected leaders. They are staffed by some of the brightest economic minds available. The analysis produced internally informs decisions that will affect millions upon millions of consumers and businesses across the globe. Their conclusions and intentions are followed by almost all significant investment organisations, corporate treasuries and business leaders in the world.

And when inflation goes up, surely they must raise rates.

Far be it from us to ever question their divinations. And yet, it beggars belief to assume that their weapon of choice to deal with port congestions is … interest rates.

Central banks appear to be faithful disciples of two pieces of theory:

One: Milton Friedman's "inflation is always and everywhere a monetary phenomenon". Inflation is a result of more money in the system leading to higher demand. Flush that money away by raising the cost of money, and we should return to equilibrium prices.

Two: Inflation expectations are self-fulfilling prophecies. If only people can believe higher rates will fight inflation, then surely inflation should come down.

David Baker, CIO

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