Wealth Management
Weekly Market Update

Blog - LinkedIn - Twitter
Publications - Web
Contact Us

Published 1 November 2021

Market Update

Equities in most major markets posted gains last week with global stocks up +1.4% in Sterling terms, amid stronger investor sentiment. US stocks were up +2.0% as positive earnings surprises continued during the busiest week of the earnings season. EU stocks were up +1.2% amid strong corporate earnings, while UK stocks were up +0.5% as the OBR revised its outlook for the UK economy upwards. Globally, consumer discretionary and IT were the best performing sectors while financials and energy were the worst performing. The US 10Y Treasury yield was down 8bps finishing the week at 1.552%, while the UK 10Y yield was down 11.1bps reaching 1.034%. Sterling was down -0.5% against the US Dollar. In US Dollar terms gold was up +0.1%, while oil was down -0.6% to $84.2 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.5%	▲ +2.0%	▲ +0.6%	▲ +1.4%	▼ -1.6%	▶ +0.0%	▲ +2.5%	▼ -0.5%

all returns in GBP to Friday close

Macro News

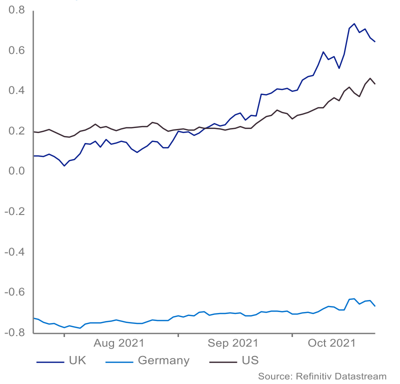
- The IFO business climate index for Germany fell from 98.9 points in September to 97.7 points in October. Firms appear less confident with their current business and remain sceptical about future expectations largely due to supply chain bottlenecks.
- According to IHS Markit flash data, the US manufacturing PMI stood at 59.2, a seven month low, while the Services Business Activity Index stood at a three month high of 58.2. Manufacturing firms struggled to meet demand due to supply chain issues and labour shortages while the services sector showed signs of revival after posting the quickest rate of expansion since July.
- The euro area inflation in October stood at 4.1%, up from 3.4% in September according to latest flash data. The rate was largely driven by higher energy prices which rose by 23.5% y/y compared with 17.6% in September.
- Japanese industrial production in September surprised to the downside, plunging 5.4% m/m. The fall was largely attributed to automotive production, which plunged 28.2% m/m due to persistent supply bottlenecks and chip shortages.

The Week Ahead

- Earnings will continue to be in the spotlight as several companies will report during the week. Investors will also be keeping an eye on German retail sales, US ISM manufacturing data, UK houses prices as well as euro area unemployment figures.

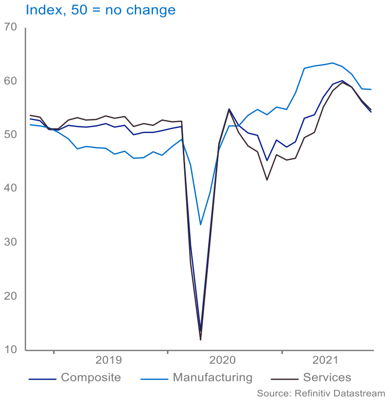
Week in Charts

2 year Government yields are up
Yield, per cent



2 year Government bond yields in the UK, US and Germany have risen since August as investors fear that a rate rise will come sooner than expected. Inflation might turn out to be not as transitory, thus leading central banks to become more hawkish sooner than initially anticipated.

Euro area PMIs
Index, 50 = no change



Latest PMI readings in Europe show that momentum continues to fade as both manufacturing and services PMIs have hit a six month low. Among others, the rate of new orders fell for a third month in a row while input and output costs keep rising aggressively.

View From the Desk

What do last week's British budget and COP 26 have in common? The possibly inevitable return of 'Big State'. The 1980s ushered in an era of lower taxes and reliance on consumers to fuel growth. The Covid-19 pandemic, twelve years after the global financial crisis, followed by a decade of 'Sustainability Economics' may have put a tombstone on Ronald Reagan's chapter of liberalism for western economies.

When this pandemic started and governments stepped in to save companies hit by lockdowns, we argued that the future would see an augmented role of the state in western liberal economies. Our commentary focused on the government's role in directing industry towards desirable goals. This made sense. The non-financial corporate sector has the heftiest debt load aside from governments themselves and could not be given a blank check with public money.

Last week's British budget revealed another dimension of state intervention. Fiscal spending fuelled by higher taxes. The fact that this comes from a Conservative party may look surprising, but it demonstrates how pragmatism and need can easily trample and possibly redefine ideology. And this could be just the beginning. While this is a pandemic-related budget, we have every reason to fear the coming era of 'Sustaina-nomics' may well feature even more consumer dis-empowerment.

During the last crisis, twelve years ago, governments avoided fiscal interventions and instead let central banks and quantitative easing do the heavy lifting. As a result, the financial economy grew exponentially while the high street economy stagnated. And where the latter grew, it did so in the direction of tech products. Consequently, the eight largest US companies belong to the tech sector and account for more than a quarter of global capitalisation. Clearly, what little growth western economies experienced was neither equitable nor in any way balanced. Classical economics assumes that aggregate consumer spending will always lead to the wisest economic decisions. But decades of rapid growth have led to the depletion of natural resources to the point where the human species is adversely terraforming its own home. As debts pile for future generations and the air becomes thicker, the prevailing thinking amongst political leaders is that too much is at stake to let consumer randomness decide the next steps of economic development.

David Baker, CIO

mazars