Wealth Management
Weekly Market Update

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Market Update

Equities in most major markets posted minor gains last week with global stocks up +0.3% in Sterling terms, as inflation concerns seem to have stemmed a previously strong investor sentiment. US stocks were up +0.2% as multi-year high inflation data offset positive news on employment data. EU stocks were up +0.2%, despite Covid-19 cases surging in most countries in the region. UK stocks were up +0.7% while EM equities rose by +2.2%, driven by China's announcement that it would propose easing measures to aid indebted real estate firms. The US 10Y Treasury yield was up 11.0bps finishing the week at 1.561%, while the UK 10Y yield was up 6.9bps reaching 0.914%. In US Dollar terms gold posted solid gains for the second week in a row, up +3.1%, while oil was down -0.1% to $80.4 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.7%	▲ +0.2%	▲ +0.2%	▲ +0.3%	▲ +2.2%	▶ +0.0%	▼ -0.9%	▼ -0.6%

all returns in GBP to Friday close

Macro News

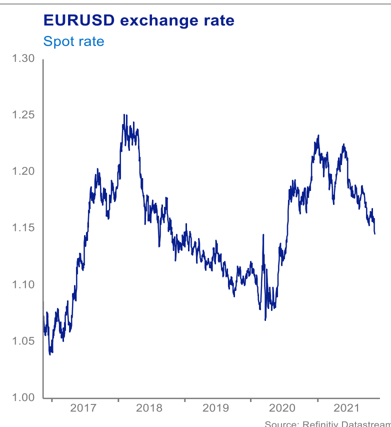
- According to the Bureau of Labor Statistics the US consumer price index in October rose 6.2% on a year-on-year (yoy) basis, up from 5.4% in September marking the fastest annual rise since 1990. The main drivers of this surge were higher energy costs as well as higher prices for shelter, used cars and trucks and new vehicles.
- China's producer price index increased by 13.5% yoy, up from 10.7% in September while significantly exceeding the 12.4% rate that was estimated by analysts. The rise is largely driven by the surge in commodity and energy costs with coal and oil prices significantly impacting producers.
- UK GDP rose by 0.6% month-on-month in September, faring higher than the 0.4% consensus estimate. Economic activity picked up at the end of Q3, having risen in total by 1.3% compared to last quarter after having a poor start in July. GDP is now 0.6% and 2.1% below the February 2020 and Q4 2019 level respectively.
- Euro area industrial production in September fell for a second month in a row, by 0.2%, as supply chain issues continue to hamper manufacturing activity.

The Week Ahead

- Investors will be keeping an eye on the interest rate decision by the PBoC in China, the IFO business outlook survey in Germany as well as the Chicago Fed National Activity Index figures for October.

Week in Charts

The price of gold has rallied strongly over the last week as investors have sought safety in response to multi year high levels of inflation and a dovish stance by major central banks.



The US Dollar reached a 16-month high against the Euro on Thursday after 30 year high US inflation figures increased the likelihood of interest rates hikes.

View From the Desk

Inflation concerns dominate the discussion after last week's surprise 6.2% yearly rise of goods' prices in the United States. European numbers also picked up, with Germany, the manufacturing heartland of Europe and historically an inflation-phobe, registering the highest inflation numbers in more than two decades.

Numbers themselves are useless, of course, if they are not broken down. While year-on-year US inflation has hit 6.2%, since October 2019, prices in the US have risen 3.6% per annum. This of course is still close to twice the Fed's target of 2%. Excluding food and energy, the bi-annual rate is closer to 3%. Around a tenth of the weight is due to sharp rises in the costs of new cars and trucks, which have risen more than 12% per annum. Deduct just this one category, plus energy and food, and average-two year inflation would be closer to a much more acceptable 1.9%-2%.

The 6.2% headline number is highly focused on energy and car prices. And while these are very real costs for consumers there is precious little central banks can do about them. With supply chains stretched to the point of breaking and possibly beyond, demand for manufacturing goods has been erratic and based on availability. Scarcity only drives up demand itself ("I may need one item X now, but if there are only a few available, I might as well order two to cover future needs"). Just-in-time inventories have given way to a good-old-fashioned stocking-restocking cycle and without the availability of containers, congested ports have taken their place, causing even more congestion. This has caused energy and transportation costs to soar. The supply chain problem is so sprawling that it would take a centralised global approach to address. Unfortunately, the Covid-19 crisis has only exacerbated geopolitical problems, placing a co-ordinated solution realistically beyond reach.

Adding to lockdown-related dysfunctions, China, the world's top trading partner, is going through its own political and economic transition. Supply chains were already stretched and have become hyper-sensitive to even the smallest disruptions (see Suez Canal issues). China adding further pressure could well break the proverbial camel's back.

David Baker, CIO

Important information

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