

Wealth Management

Weekly Market Update

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Market Update



Equities in most major markets posted large losses last week with global stocks down -1.8% in Sterling terms, driven by a sharp sell off on Friday after news that the new omicron coronavirus variant could be extremely contagious. US stocks were down -1.3% despite positive economic data being published earlier in the week, with weekly jobless claims hitting their lowest level since 1969. European stocks were down -3.8%, as certain countries continued to impose restrictions to curb rising Covid-19 cases. UK stocks were down -2.4%, while emerging market equities fell by -2.7%. The US 10Y Treasury yield was down 7.3bps finishing the week at 1.473%, while the UK 10Y yield was down 5.4bps reaching 0.825%. In US Dollar terms gold fell -1.3%, perhaps surprisingly given the perception it is a defensive asset, while oil was heavily down -10.2% to \$68 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -2.4%	▼ -1.3%	▼ -3.8%	▼ -1.8%	▼ -2.7%	▼ -1.2%	▲ +1.2%	▼ -0.8%

all returns in GBP to Friday close

Macro News



The Week Ahead

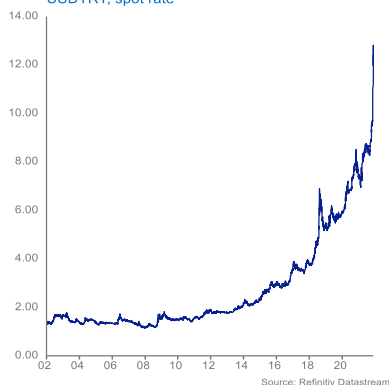


Week in Charts



- Flash PMI data for the eurozone during November saw a slight improvement amid unprecedented increases in both input and output costs, with composite PMI standing at 55.8 up from 54.2 in October. Manufacturing and services PMI indexes fared at 58.6 (58.3 in October) and 56.6 (54.6 in October) respectively.
- Flash composite PMI data for the UK during November was largely unchanged, at 57.7 down from October's 57.8. Improvements in the manufacturing PMI, 58.2 up from 57.8, were offset by a fall in the services PMI, down to 58.6 from 59.1. Survey respondents mentioned continued product shortages and supply chain bottlenecks as primary reasons for the drag on manufacturing activity despite the positive numbers.
- The Peoples Bank of China (PBOC) announced that the Loan Prime Rate (LPR) would remain unchanged at 3.85% for the nineteenth consecutive month. Despite that, the PBOC has had a dovish approach in other ways such as relaxing the regulatory constraints on mortgage lending and borrowing by property developers.
- Jay Powell has been nominated by President Biden as Fed Chair for a second term.
- Investors will be keeping an eye on the November inflation figures in Europe, the Caixin manufacturing and services PMI data as well US employment data. Further news from the WHO on the new coronavirus variant will also be in the spotlight.

Turkish lira to USD exchange rate
USDTRY, spot rate



The Turkish Lira continued to weaken excessively against the US Dollar over the week, bringing the country closer to a currency crisis. The currency, which is down approximately 45% against the US Dollar this year, plunged as much as 11% on Tuesday — the biggest drop since August 2018.

Oil prices tumble
USD per barrel



Both WTI and Brent oil prices tumbled more than 10% on Friday amid concerns that the new omicron coronavirus variant would result in decreased economic activity. This is the biggest one-day decline since April 2020.

View From the Desk



A Game of Variants: some questions answered

- What is happening in markets and why?**
On Friday morning equity and bond markets reacted negatively to news that a Covid-19 variant in South Africa, now called 'Omicron', could inflame the pandemic, even amongst vaccinated populations. The variant contains more than 30 mutations to the spike protein, many of which are linked to increased antibody resistance. This could affect its behaviour with regard to vaccines, treatments and transmissibility. While there is evidence of increased transmissibility, which would allow it to become the dominant variant, there is no evidence as to the severity of symptoms. The response prompted a significant sell-off in equity markets early on Friday, with US equities losing 2.3% and European markets shedding 3.5% to 5%. Meanwhile, bond yields fell, oil prices (which include a fair amount of speculation) fell by 6%, and gold gained 1%. This is a classic 'risk-off' episode, the worst in about thirteen months.
- Did the markets overreact?**
At this point, it's difficult to say. While the variant is probably more transmissible, it will take a few weeks to determine whether it bypasses vaccination or leads to more severe illness, and what its impact might be on younger populations. There is evidence to suggest that we should wait before calling for a major correction.
 - The risk-off event happened on the Friday after Thanksgiving, when the US market (and many European trading desks) worked on skeleton crews, so trading volumes were probably lower than usual.
 - The sell-off took place at the end of the US earnings season and the closure of books for hedge funds and prop desks. Central banks are turning more hawkish on inflation concerns, and just a couple of days ago the Fed said it might speed up the timetable for ending this round of asset purchases. Global stocks had already gained almost 21% year-on-year, and even if the event hadn't happened, it would not have been the worst time for market participants to take some profit off the table.
 - Liquidity is ample, more than it has never been. The next few days, or maybe weeks, will show whether investors will take advantage of lower valuations to put their money to work or whether they will continue with the sell-off.

David Baker, CIO

Important information

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