# Wealth Management
# Weekly Market Update



Published 6 December 2021

## Market Update

Equities in major markets saw mixed returns in the past week, with global stocks down -0.7% after a volatile week of trading. US stocks were down -0.5% over concerns that the Federal Reserve could taper its asset purchases at a faster rate and that the Omicron variant may hamper the economic recovery. European stocks were up +0.4%, UK stocks were up +1.2%, while emerging market equities rose +0.9%. Japanese stocks on the other hand registered losses of -0.4% due to concerns over the Omicron variant, and new travel restrictions which have weighed on sentiment. The US 10Y Treasury yield fell 13bps finishing the week at 1.343%, while the UK 10Y yield was down 7.8bps reaching 0.747%. In US Dollar terms gold fell -0.3%, perhaps surprisingly given the perception that it is a defensive asset, while oil was heavily down -8.5% to $69.63 per barrel.

| UK Stocks | US Stocks | EU Stocks | Global Stocks | EM Stocks | Japan Stocks | Gilts | GBP/USD |
|---|---|---|---|---|---|---|---|
| ▲ 1.2% | ▼ -0.5% | ▲ 0.4% | ▼ -0.7% | ▲ 0.9% | ▼ -0.4% | ▲ +0.6% | ▼ -0.8% |

*all returns in GBP to Friday close*

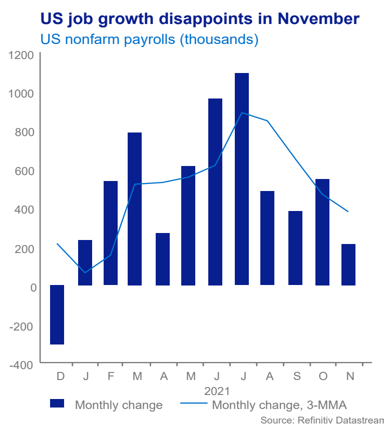
## Macro News

- The US economy added just 210,000 jobs in November, the least since a 306,000 decline in December 2020 and well below market expectations of 550,000, as employers continue to report difficulties in hiring and retaining workers amid a strong economic recovery. Nonfarm employment has increased by 18.5 million since April 2020 but is down by 3.9 million, or 2.6%, from its pre-pandemic level in February.
- The official NBS Manufacturing PMI for China rose to 50.1 in November 2021 from 49.2 a month earlier, beating market estimates of 49.6. This was the first growth in factory activity since August, amid easing power shortage and a sharp drop in some raw material prices. The official NBS Non-Manufacturing PMI for China was at 52.3 in November 2021, little changed from 52.4 a month earlier. Still, the latest reading pointed to the third straight month of growth in the service sector, amid sporadic Covid-19 outbreaks and easing power rationing.

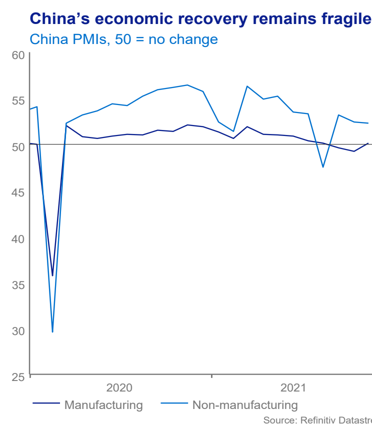
## The Week Ahead

- Investors will be keeping an eye on the November inflation figures in the US, which will be released this Friday. Last month, CPI showed prices increasing at the fastest rate in 31 years, surging to 6.2%.

## Week in Charts




Nonfarm payrolls rose by 210K in November versus forecasts of a 550K rise. That marked a substantial decline versus the 546K jobs added to the US economy in October.




Chinese manufacturing output rose for the first time since July as power shortages eased. The survey found that the improvement in energy supply and firmer market conditions were significant drivers of higher production.

## View From the Desk

**It's not inflation that will transition. It's everything else**

Last week saw the highest equity volatility since March, when it was becoming apparent that vaccinations were ensuring the eventual end of the Covid-19 pandemic. Wednesday 1 December, in fact, ranks amongst the top 4% most volatile trading days since 1990. The reason behind it was news on the - possibly more transmissible - Omicron variant, accompanied by a set of unexpected hawkish remarks from Fed Chair Jay Powell.

The Omicron variant was not much of a surprise. We have already seen many mutations of Covid-19, some of which had previously raised the alert. But a hawkish Fed? We haven't experienced one since 2018. As the potential of a new outbreak emerges, Fed Chair Jay Powell surprised markets by insisting that the US central bank would accelerate asset purchase tapering in December. Instead of customarily intoning the 'Fed Put', as per usual in times of crisis, Mr. Powell added fuel to the fire, causing stock markets to retreat on Tuesday. As our current investment thesis is underpinned by the perma-dovishness of central banks, we have to examine what this means for our portfolios.

**The pandemic isn't going anywhere**

But first, let's start with the pandemic, the undisputed driver of economic activity in the past twenty-four months. Almost two years into it, we have now reached the fifteenth letter of the Greek Alphabet's 24 letters. That means thirteen distinct variants have been uncovered in the past twenty four months, slightly more than one every two months. At this pace, there's a decent chance that the Greek alphabet will run out of politically acceptable letters before the pandemic is over. Or, to quote the eminent Dr. Fauci: *"We will have to learn to live with Covid because we are not going to eradicate it".* If we are to take science's words to their natural conclusion what does this mean? It means that global trade, retail and in fact the whole of the services sector will have to forego half-measures and 'wait and see' adjustments and firmly consign 2019 to history. The only reason the pandemic hasn't left significant scars on the global economy is that we have refused to change the way it works. But persistently fighting a rising tide could cause permanent damage. Operations managers are approaching the point where they have to overhaul global supply chains and adapt them for a world with much less business travel, labour mobility and in-person services, including sales. Such a transition will inevitably disrupt the global supply chain system, super-optimised and calibrated for a way of life that may not be available anymore. As with any change process, it can't be expected to go entirely smoothly. Add to this picture the price pressures from China's transition into a more consumer-centric model and supply inflation may be here to stay for some time.

***David Baker, CIO***

**Important information**

All sources: The information contained in this document is believed to be correct but cannot be guaranteed. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation. Where links to third party websites are provided Mazars Financial Planning Ltd accepts no responsibility for the content of such websites nor the services, products or items offered through such websites. Mazars Financial Planning Ltd is a wholly owned subsidiary of Mazars LLP, the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars Financial Planning Ltd is registered in England and Wales No 3172233 with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD. Mazars Financial Planning Ltd is authorised and regulated by the Financial Conduct Authority.

© Mazars 2021

mazars