Wealth Management
Weekly Market Update

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Market Update

Equities in major markets rebounded last week, as fears over the impact of the Omicron variant of Covid-19 appeared to subside due to the news that booster vaccine shots may be effective against the new strain. Many indices returned to, or exceeded, levels seen before the initial news of the Omicron variant triggered the sell-off. Global stocks rose by +3.0% in GBP terms, led by US stocks which rose by +3.5%. European stocks were up +2.5%, UK stocks were up +2.4%, Japanese stocks were up +0.1% and emerging market equities rose +1.1%. The US 10Y Treasury yield rose 12.6bps, finishing the week at 1.482%, while the UK 10Y yield was down 0.6bps, reaching 0.742%. In US Dollar terms gold fell for the third consecutive week, by -0.4%, while oil rose by +7.7% to $71.61 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +2.4%	▲ +3.5%	▲ +2.5%	▲ +3.0%	▲ +1.1%	▲ +0.1%	▲ +0.4%	▲ +0.3%

all returns in GBP to Friday close

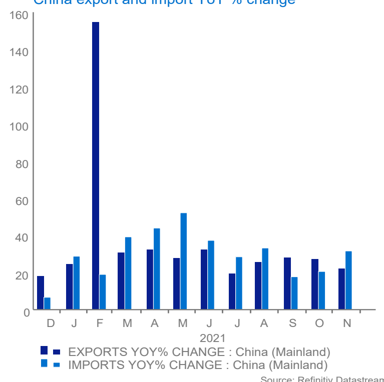
Macro News

- UK GDP expanded 0.1% month-on-month in October, the lowest in three months and below market forecasts of 0.4%. The largest drop in output came from electricity and gas, down by 2.9%, mining and quarrying, down by 5%, and construction, down by 1.8%.
- Annual inflation rate in the US accelerated to 6.8% in November, the highest since June 1982. It marks the ninth consecutive month of inflation above the Fed's 2% target as a global commodities rally, rising demand, wage pressures, supply chain disruptions and a low base effect from last year continue to push prices up.
- Exports from China rose 22% year-on-year to a fresh record high of USD 325.53 billion in November, easing sharply from a 27.1% jump in October. Imports to China jumped 31.7% YoY to a new all-time high of USD 253.81 billion in November, exceeding market expectations and accelerating from a 20.6% rise in October.

The Week Ahead

- Investors are bracing for the last Federal Reserve meeting of the year, with market participants eagerly waiting to learn how quickly it plans to finish unwinding its bond-buying program and pick up signs of when it may start to raise rates in 2022.

Week in Charts



China's export growth lost steam in November, pressured by a strong Yuan, weakening demand and higher costs, but import growth accelerated and came in well above expectations.

US inflation numbers for November came in as expected, at 6.8%, a 39 year high. Excluding food and energy, inflation went up to 4.9% from 4.6%, the highest since June 1991.

View From the Desk

Forget QE – for now at least.

It may be difficult to remember, but in the midst of the global financial crisis and long after, Quantitative Easing (QE) wasn't really trusted by markets. For the next five to seven years, almost until 2015, most money managers did not trust the bull market and remained underweight risk. They paid with underperformance and the rise of passives. Then we began to wonder what could ever stop the QE juggernaut. The answer was always simple: inflation.

Last week saw US inflation hit a 40-year record of 6.8%. The fine print says that the bulk of the price rises focuses on energy prices and cars/trucks. And also, that it is supply, not demand-driven, which means it would respond very differently to interest rate hikes. However, once a number like that hits the headlines, details are forgotten and things happen quickly.

It is difficult to find a participant in today's market who remembers what this kind of price pressure even feels like. Last time inflation was running this hot, the Cold War was raging, personal computers had not been invented, 'Chariots of Fire' was named the best movie of the year and Ben Cross was the hottest name in acting. Meanwhile, an unlikely Hollywood actor named Ronald Reagan had newly occupied the White House. Interestingly enough, however, the present incumbent in the Oval Office, Joe Biden, was already a 10-year Senator from Delaware. His memory of how inflation brought down his party's President, Jimmy Carter, should be vivid as he sees his own approval ratings slide for the same reason.

In the last twelve years, monetary accommodation have ballooned and central bank assets for the US and the EU have increased nearly eight times. All they achieved was a meagre 1.5% inflation. Policy leaders fretted about deflation and tortured their intellects about how to normalise the yield curve again and turn money lending into a profitable operation once more. They talked rates up; they tried to stoke inflation expectations but to no avail. The yield curve remained flat as a pancake. It took a global pandemic and the biggest post-war supply chain shock to see inflation.

Since 2008, the US central bank has exercised a dominating amount of control over the prices of all assets across the risk spectrum. It was not just its ability to throw trillions into financial markets at the push of a button. It was the threat that this posed to short-sellers. No one wanted to be caught with short positions at any time when the US central bank could decide to start printing. So, they were long.

The Fed's freedom to print money at will, in all probability, shall soon be tested. And with it, the cornerstone of the last twelve years' financial paradigm.

David Baker, CIO

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