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Asset Management

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Weekly Bulletin: Markets uneasy despite positive economic news

Key takeaways

Economic data in the UK continued to impress, including improving employment data and rising house prices. However, financial markets endured a nervous week amid rising COVID-19 cases globally, while the prices of higher risk assets like shares and oil fell in sterling terms.

- The latest figures showed that the number of people in employment in the UK increased by 95,000 in the second quarter of 2021. This brings the unemployment rate down to 4.7%, reflecting a surge in demand for workers as the UK has emerged from pandemic-related restrictions (job vacancies hit a record high of 953,000). In other UK economic news, inflation slowed more than expected, with the annual rate falling from 2.5% to 2% in July, while house prices rose by an average of 13.2% in the year to June 2021 – the fastest pace since 2004.

- Economic news held the headlines on the other side of the Atlantic too. Initial jobless claims in the US fell to a fresh pandemic-era low, with new unemployment applications dropping to 348,000 and ongoing claims down to 2.82 million. The pace of hiring and job openings has picked up in the US too. However, it is worth noting that the overall level of unemployment claims remains well above pre-pandemic levels. What's more, US retail sales fell by 1.1% in July, as the emergency economic stimulus enacted during the lows of the pandemic began to fade, and the Delta variant of the COVID-19 virus appeared to impact consumer behaviour. The latter is likely to be yet more pronounced in August.

- Meanwhile, last week was a busy one for the leader of the US Federal Reserve Bank (Fed). Chair Powell highlighted that the US should not expect to return to the economy it had before the pandemic, and pointed to a "far from complete" jobs recovery. The release of the latest Fed policymaker meeting minutes also showed accelerated discussions on when to wind down one of the programmes put in place to support liquidity in financial markets – its asset purchase programme.

- Despite encouraging economic data, financial markets were broadly nervous last week, as global COVID-19 case numbers continued to surge thanks to the Delta variant of the virus. A number of developed economies, including Israel (the poster child for vaccination programmes), the US and UK are involved in the debate around administering booster jabs of the COVID-19 vaccine. The World Health Organisation and many healthcare experts have condemned the use of booster shots in developed economies before first and second doses have been issued to much of the developing world.

Weekly market moves

In a tough week for share prices globally, most major stock markets ended the week in negative territory (in sterling terms). However, a strong US dollar, alongside a rally as the week drew to a close, saw US shares finish the week positively.

The oil price endured its worst weekly performance of 2021 so far, amid worries around the pace of global growth.

Traditional investor 'safe havens' such as government bonds and gold showed some of their defensive characteristics over the week.

What to look out for this week

The annual Economic Policy Symposium held at Jackson Hole in the US is due to take place virtually at the end of this week. All eyes will be on Fed Chair Powell for any hints as to the future pathway for central bank policy.

Sticking with the US, President Biden's infrastructure bill will return to discussion in the House of Representatives (lower house of Congress) this week as politicians come back from their summer break.

Market moves (as at 20 August 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,988.5	-1.6%	1.4%	13.2%
MSCI United Kingdom Mid Cap	1,424.5	-1.1%	1.4%	16.1%
MSCI United Kingdom Small Cap	493.7	-0.1%	3.6%	17.3%
MSCI World (GBP)	2,334.1	0.3%	2.6%	16.4%
S&P 500 (GBP)	4,441.7	1.2%	3.3%	19.8%
MSCI Japan (GBP)	1,151.7	-2.1%	1.1%	-0.4%
MSCI Europe ex-UK (GBP)	1,690.5	-0.5%	2.4%	15.4%
MSCI Pacific ex-Japan (GBP)	1,763.0	-2.4%	0.3%	6.5%
MSCI Emerging Markets (GBP)	69,262.7	-2.9%	-2.3%	-3.5%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,389.0	0.4%	0.6%	-2.5%
BoA Merrill Lynch Index-Linked Gilts	661.1	0.7%	1.8%	5.0%
BoA Merrill Lynch £ Corporate	480.3	0.3%	0.6%	-0.4%
Commodities				
Oil (West Texas Intermediate, GBP)	$62.3	-7.2%	-13.9%	29.4%
Gold (GBP)	$1779.1	2.1%	-0.5%	-5.4%
S&P / GSCI (GBP)	2,416.9	-4.1%	-6.5%	22.7%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

Registered Head Office: No.1 Kingsway, London, WC2B 6AN. Registered in England No: 4132340. www.wealthandasset.handelsbanken.co.uk
Telephone: 020 7045 2600