

Weekly bulletin: The oil price falls, and a new COVID-19 variant rises

Key takeaways

In a week marked by investor nerves and a sharp drop in oil prices, a new COVID-19 variant entered the fray. In policymaker news, the head of the US central bank remains in situ for another term.

- As a new variant of the COVID-19 virus emerges in southern Africa, the UK, US and EU have introduced travel restrictions to and from nations in the region. New variants of the COVID-19 virus always had the potential to present new challenges, but we are also mindful of encouraging developments in vaccination programmes, anti-viral pills and improvements in our understanding of how to manage the pandemic.
- Largely overlooked by financial markets, last week also delivered optimistic US economic data, which confirmed that the US economy is in a good position. New jobless claims fell, while the latest estimates for growth for the third quarter were revised upwards. Inflation figures remained high, though, with core PCE (personal consumption expenditures) coming in at the highest level in over thirty years.
- Amid rising concerns around the increased cost of gasoline, the US government announced last week that it would be releasing 50 million barrels of oil from its Strategic Petroleum Reserve, with similar decisions taken concurrently by authorities in China, India, Japan, South Korea and the UK. In the event, oil prices initially rose following the release (due to the plans being widely reported in advance), but fell sharply on Friday due to concerns that demand for oil would soften.
- Meanwhile, the current chair of the US Federal Reserve Bank (Fed) – Jerome Powell – will remain at the helm of the central bank for another term. Serving a second term would normally signal continuity, but in fact financial markets have begun to predict a somewhat less accommodative stance from the Fed, which is currently reducing its bond purchase programme (as planned) by \$15 billion a month. If the pace of this picks up, it could also bring forward the timing of the Fed's future interest rate hikes. We continue to closely monitor developments in this area, but note that financial conditions remain very loose, which is important for risk assets like shares.

Weekly market moves

Anxious investors stepped away from riskier asset types like shares last week, leading to a poor patch of performance for most major stock markets.

Given this risk-averse environment, traditionally safer areas of bond markets performed positively – the prices of UK government bonds rose accordingly (yields on these bonds, which move inversely to their prices, fell).

In a very negative week for commodity markets, the oil price fell heavily. It is worth noting, though, that 2021 remains a stellar year for oil so far.

What to look out for this week

Economic data due for release this week includes survey data on the manufacturing sector (Purchasing Managers Index) as well as the latest US labour market report.

Following an October extension to the US government's 'debt ceiling' (the limit on how much debt the government can accumulate) another deadline looms this week. Failure to raise the debt ceiling further would limit government payments, and result in a so-called 'shutdown'. Recent years have seen increased political posturing around debt ceiling events.

Market moves (as at 26 November 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,982.2	-2.3%	-2.2%	13.8%
MSCI United Kingdom Mid Cap	1,407.0	-3.6%	-0.9%	15.3%
MSCI United Kingdom Small Cap	460.1	-4.0%	-3.0%	9.9%
MSCI World (GBP)	2,388.5	-1.8%	1.5%	21.4%
S&P 500 (GBP)	4,594.6	-1.3%	2.7%	27.0%
MSCI Japan (GBP)	1,225.9	-1.4%	3.5%	5.9%
MSCI Europe ex-UK (GBP)	1,661.3	-3.9%	-1.6%	13.2%
MSCI Pacific ex-Japan (GBP)	1,697.9	-1.7%	-1.8%	6.0%
MSCI Emerging Markets (GBP)	69,895.7	-2.7%	-0.5%	-0.8%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,382.9	1.3%	2.8%	-3.0%
BoA Merrill Lynch Index-Linked Gilts	689.5	1.2%	5.5%	9.5%
BoA Merrill Lynch £ Corporate	473.8	0.2%	1.2%	-1.8%
Commodities				
Oil (West Texas Intermediate, GBP)	\$68.2	-9.6%	-16.1%	44.5%
Gold (GBP)	\$1800.8	-2.4%	4.6%	-2.2%
S&P / GSCI (GBP)	2,665.2	-3.9%	-5.3%	38.2%

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