

Weekly Bulletin: Markets unnerved by rising inflation

Key takeaways

Last week, as vaccination news continued to light the way out of the pandemic crisis, financial markets were preoccupied by the spectre of rising inflation.

- Data released last week indicated a surge in US inflation. This included rising consumer prices, as well as heightened producer prices (pointing to still higher consumer prices in the future). With the US central bank taking an avowedly supportive stance towards economic recovery, these figures led to fears that inflation would be allowed to gather pace, unnerving financial markets. Bond market investors were worried about rising inflation, while stock market investors worried about the potential for rising bond yields.
- However, though 'headline' inflation data can be moved by volatile components such as energy and food, 'core' inflation relates much more closely to the employment picture. At present, US unemployment remains at an elevated level. Despite improvement, the number of people signing up for unemployment benefits is still more than twice the pre-pandemic figure. History would suggest that it will take some time for this to return to more normal levels, potentially keeping a lid on core inflation too.
- In COVID-19 news, European vaccination rates have picked up, but mainland Europe remains some way behind the UK. At present, the UK is the only G20 country to have vaccinated more than half its population with at least one dose. Needless to say, the faster vaccine programmes are rolled out, the better for economic recovery.
- Evidence to date shows that current vaccines remain at least partly effective against the main 'variants of concern' of COVID-19, reducing more serious outcomes. Once herd immunity is reached, the probability of another devastating wave could be greatly reduced – a positive not only for population health, but also for economic growth and financial markets.
- For now, though, monthly UK growth figures point to an economy still well below pre-pandemic levels. A strong rebound in economic activity in March bodes well for April and May, though, with data set to reflect growing activity as restrictions ease. As a potential preview, card payments data from Barclaycard has suggested that UK consumer spending rose above pre-pandemic levels in April. The next stage of economic reopening begins today, and will no doubt result in another boost to consumption, particularly for the hospitality sector.

Weekly market moves

There was a broad selloff across major asset types last week, as inflation fears once again bubbled to the surface.

In stock markets, the UK outperformed its global peers, partially driven by the recent strength in the currency (which in turn lowers returns from overseas assets for UK investors).

Bond prices fell across the seven day period as well, while yields (which move inversely to prices) rose.

What to look out for this week

Economic data due for release this week includes UK inflation figures, a range of US housing data, and an early look at the latest manufacturing and service sector surveys (Purchasing Managing Index).

Markets will be closely watching the weekly US jobless claims numbers, which dropped to a post-pandemic low last week.

Market moves (as at 14 May 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,983.0	-0.8%	1.7%	11.3%
MSCI United Kingdom Mid Cap	1,355.9	-1.3%	-0.1%	9.5%
MSCI United Kingdom Small Cap	470.2	-2.0%	-1.1%	11.1%
MSCI World (GBP)	2,202.5	-2.1%	-1.6%	6.8%
S&P 500 (GBP)	4,173.9	-2.1%	-1.8%	8.4%
MSCI Japan (GBP)	1,149.2	-4.1%	-2.7%	-3.8%
MSCI Europe ex-UK (GBP)	1,582.1	-1.3%	0.4%	7.6%
MSCI Pacific ex-Japan (GBP)	1,730.5	-2.5%	-1.5%	6.0%
MSCI Emerging Markets (GBP)	72,980.8	-3.7%	-4.6%	-1.2%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,316.2	-1.3%	-0.7%	-7.6%
BoA Merrill Lynch Index-Linked Gilts	590.9	-1.6%	-0.7%	-6.2%
BoA Merrill Lynch £ Corporate	462.4	-0.9%	-0.5%	-4.2%
Commodities				
Oil (West Texas Intermediate, GBP)	\$65.5	0.1%	1.4%	31.5%
Gold (GBP)	\$1838.1	-0.7%	2.2%	-5.5%
S&P / GSCI (GBP)	2,470.5	-2.4%	-0.1%	21.3%

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