

Weekly Bulletin: Inflation remains in the spotlight

Key takeaways

While the eyes of investors remain on inflation data, major changes could be on the way in both international tax rules and Middle-Eastern politics.

- Inflation continued to hold the media headlines last week, with the latest data indicating that food prices had rocketed by 40% versus the same time last year – the largest jump since 2011. While the rise may be related to temporary factors, food price inflation can pose serious geopolitical and financial market risks. Given other surging pandemic-related resentment, this could be an area to watch.
- Meanwhile, the US Federal Reserve Bank (Fed) has announced that it is beginning to unwind its corporate bond purchase programme. While this relates to just a tiny slice of central bank activity, the announcement marks an early attempt to restore some normality to proceedings. Given the slight nature of this move, we can assume that in future the Fed will aim to reduce support at an incremental pace, in order to avoid rattling financial markets (which are notoriously quick to panic about the removal of central bank assistance).
- Sticking with the US, and the latest housing market data has indicated that the ratio of house prices to rental prices is higher today than during the global financial crisis. This suggests some exuberance in housing markets, and is ringing alarm bells for some market commentators.
- A major shake-up to international corporate taxation is being proposed by the G7 countries (US, Japan, Germany, Britain, France, Italy and Canada). Current proposals include a fairly low minimum corporation tax rate of 15%, with some profit to be taxed in the country where it is generated, rather in the country which hosts the company's headquarters. These proposals have a long way to go before any wider agreement, but send a signal of international cooperation (often absent during Trump's reign) under the Biden administration.
- Meanwhile in Israel, a changing of the guard may be afoot. After more than a decade in office, Israeli Prime Minister Netanyahu has managed to unite all factions against him, and is set to be ousted by a coalition of other parties. The deal to replace Netanyahu involves a rotating programme of prime ministers, which – alongside the breadth of political beliefs present in the coalition – has the potential to be unstable, though only time will tell. While Israel is not a major financial market, political issues in the Middle East always hold the possibility for global ramifications.

Weekly market moves

Global stock markets enjoyed a buoyant week, with Japanese and emerging markets (the erstwhile laggards) gaining some ground.

In bond markets, inflation-linked government bonds continue to outperform their conventional counterparts.

The oil price advanced further, adding to an already impressive performance year.

What to look out for this week

On Thursday, all eyes will be on the latest consumer inflation data (CPI), which is due for release in the US. Inflation is expected to rise again, potentially reaching its highest levels since late 2008.

Market moves (as at 4 June 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,986.0	0.8%	0.8%	11.7%
MSCI United Kingdom Mid Cap	1,369.4	0.8%	0.8%	10.9%
MSCI United Kingdom Small Cap	480.0	0.7%	0.7%	13.6%
MSCI World (GBP)	2,245.1	0.7%	0.7%	8.5%
S&P 500 (GBP)	4,229.9	0.7%	0.7%	9.3%
MSCI Japan (GBP)	1,199.2	1.0%	1.0%	-0.2%
MSCI Europe ex-UK (GBP)	1,623.5	0.8%	0.8%	10.4%
MSCI Pacific ex-Japan (GBP)	1,777.6	0.5%	0.5%	8.4%
MSCI Emerging Markets (GBP)	76,487.6	1.7%	1.7%	4.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,328.4	-0.3%	-0.3%	-6.8%
BoA Merrill Lynch Index-Linked Gilts	612.4	0.1%	0.1%	-2.8%
BoA Merrill Lynch £ Corporate	465.9	0.0%	0.0%	-3.4%
Commodities				
Oil (West Texas Intermediate, GBP)	\$69.4	4.7%	4.7%	38.4%
Gold (GBP)	\$1890.6	-0.4%	-0.4%	-3.4%
S&P / GSCI (GBP)	2,560.5	2.8%	2.8%	24.9%

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.

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