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Asset Management

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Weekly Bulletin: Markets return to upbeat mood

Key takeaways

Markets returned to an upbeat mood last week, buoyed by strong economic data, no further escalation of the regulatory crackdown in China (covered in last week's Bulletin), and news that the number of virus-related deaths is stabilising globally.

- The much anticipated US employment report lived up to expectations as US payrolls rose by 943,000 (new jobs added to the economy) in July, exceeding consensus forecasts of 863,000. New jobs in the leisure and hospitality sectors were the key driver as the economy opens up. There was also a notable slide in July's unemployment rate to 5.5% from June's 5.9%, a new pandemic-era low. However, payroll processing firm ADP's tally of private sector job gains, came in considerably below expectations. Labour-market strength is a key focus for policymakers. Elsewhere in the US, the Institute for Supply Management's (ISM's) index of July factory activity missed expectations but still showed healthy growth, while the ISM's service sector index, jumped well above expectations indicating strong growth in the sector. Market reaction to all of these data releases was muted with US treasury yields showing only a minor move upwards (bond yields and prices move in opposite directions) suggesting that much of this good news had been anticipated.
- In the UK, the Bank of England signalled that its concerns over inflation are strong enough to warrant the withdrawal of some support to the UK economy over the next three years. Policy makers said they now expect annual price growth to peak at around 4%. While most of the increase may prove temporary, meeting the central bank's 2% inflation target in the medium term will require "some modest tightening". But policy makers were careful to signal that they're in no rush to act soon, leaving investors convinced that the first increase in interest rates will likely come in the second half of 2022. There was no meaningful market reaction to this news, although a 4% inflation rate will certainly focus the mind!
- Meanwhile, regarding the pandemic, the good news is that the vaccine rollouts are reducing deaths despite the number of COVID-19 cases continuing to rise globally. The UK 'opening up experiment' has gone well so far, with no meaningful spike in hospitalisations/deaths and the number of cases continuing to fall. Economic activity data is slowly responding, albeit we are currently in a summer lull.
- Finally, the second quarter earnings season is drawing to a close with nearly 90% of S&P 500 companies having reported Q2 results. Strong earnings have been a key factor supporting markets over the past few weeks with 86% of companies having beaten their earnings expectations. High demand, coupled with supply chain constraints and higher input prices, have been evident across a wide range of industries.

Weekly market moves

Global stock markets rose over the week with US and European shares marking new highs helped by good earnings and economic data. UK smaller company shares were particularly strong, while emerging markets recovered some lost ground after a bout of weakness.

Bond markets were broadly flat to negative, although UK inflation-linked gilts continued to perform well on higher inflation expectations. In commodities, precious metals suffered a sharp fall towards the end of the week on concerns over tighter US monetary policy following the strong US jobs report.

What to look out for this week

The United Nations study on climate change, the largest such report, is published today and will likely be at the forefront of news and analysis for this week at the very least.

The main macroeconomic highlight will be the highly anticipated US Consumer Price Index data for July. The last few readings strongly surpassed expectations. There will also be consumer pricing data from some of Europe's largest economies and the preliminary reading of Q2 GDP from the UK.

Market moves (as at 6 August 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,005.3	1.4%	1.4%	13.3%
MSCI United Kingdom Mid Cap	1,427.6	1.3%	1.3%	16.0%
MSCI United Kingdom Small Cap	486.5	2.1%	2.1%	15.5%
MSCI World (GBP)	2,340.8	1.2%	1.2%	14.8%
S&P 500 (GBP)	4,436.5	1.2%	1.2%	17.4%
MSCI Japan (GBP)	1,182.1	1.4%	1.4%	-0.1%
MSCI Europe ex-UK (GBP)	1,689.4	1.2%	1.2%	14.0%
MSCI Pacific ex-Japan (GBP)	1,791.2	1.7%	1.7%	8.0%
MSCI Emerging Markets (GBP)	72,591.0	1.5%	1.5%	0.2%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,375.3	-0.4%	-0.4%	-3.5%
BoA Merrill Lynch Index-Linked Gilts	655.9	1.0%	1.0%	4.2%
BoA Merrill Lynch £ Corporate	477.2	-0.1%	-0.1%	-1.1%
Commodities				
Oil (West Texas Intermediate, GBP)	$68.3	-7.4%	-7.4%	39.2%
Gold (GBP)	$1762.9	-3.2%	-3.2%	-7.9%
S&P / GSCI (GBP)	2,548.3	-3.2%	-3.2%	27.1%

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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