Handelsbanken
Asset Management

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Weekly bulletin: A volatile patch for world stock markets

Key takeaways

As a new COVID-19 variant captures global attention, financial markets are watching closely for the central bank response.

- Europe has returned to its position at the epicentre for the COVID-19 pandemic, and authorities have reacted by hardening policies towards the unvaccinated. These range from blanket national lockdowns for anyone unvaccinated in Germany, to monthly fees (€100 per unvaccinated person over the age of 60) in Greece, and even unpaid leave at the discretion of employers for unvaccinated workers in Hungary.
- We still know relatively little about the new COVID-19 variant, Omicron. Early data from South Africa – one of the first nations to identify it – suggests that it may be more transmissible than its predecessors. However, nations in southern Africa have extremely low vaccination rates versus the global average, as well as a different demographic profile versus most developed economies, so it is still unclear how transmission rates would compare in older and more vaccinated populations. Most developed world governments have responded to Omicron with renewed vaccine/booster programs.
- For financial market participants, the likely reaction of central banks to the emergence of a new COVID-19 variant is extremely relevant. The head of the US central bank, Chair Powell, has pointed to potential risks to economic activity and employment, as well as increased uncertainty for the inflation picture. However, Powell appears to remain set on removing the emergency support measures enacted throughout the earlier stages of the pandemic, and financial markets increasingly expect multiple interest rate hikes in 2022. Meanwhile, the European Central Bank continues to push back against a 2022 rate hike, calling this “unlikely”, despite higher-than-expected inflation data in Europe.
- Last week also saw the release of November’s jobs report in the US, which delivered a mixed set of figures. Growth in new jobs disappointed, with the leisure and hospitality sector particularly lacklustre. However, the fall in the unemployment level to 4.2% was encouraging, as were some of the report’s more granular details, such as a substantial fall in the unemployment rate among black Americans (from 7.9% to 6.7%).

Weekly market moves

The oil price endured a terrible week, as concerns surrounding the new COVID-19 variant dampened the outlook for energy demand.

Over a relatively volatile few days for global stock markets, the share prices of larger companies outperformed their smaller counterparts.

In keeping with the generally risk-averse market mood, traditionally defensive stock market sectors like utilities and consumer staples performed best. ‘Safe-haven’ bond prices also rose (yields, which move inversely to prices, fell).

What to look out for this week

Much of the economic data due for this release focuses on the US, including an update on inflation. The week culminates in the latest federal budget, which is due for release on Friday.

In the UK, industrial and manufacturing production data will also be released at the end of the week.

Market moves (as at 3 December 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,008.7	1.4%	1.1%	15.4%
MSCI United Kingdom Mid Cap	1,406.9	0.1%	0.5%	15.4%
MSCI United Kingdom Small Cap	461.5	0.4%	0.5%	10.3%
MSCI World (GBP)	2,356.1	-0.5%	-0.4%	20.7%
S&P 500 (GBP)	4,538.4	-0.3%	-0.5%	26.6%
MSCI Japan (GBP)	1,207.5	-0.7%	1.7%	5.2%
MSCI Europe ex-UK (GBP)	1,652.6	0.1%	0.2%	13.3%
MSCI Pacific ex-Japan (GBP)	1,675.2	-1.4%	-0.3%	4.5%
MSCI Emerging Markets (GBP)	69,821.7	1.1%	1.2%	0.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,392.3	0.7%	0.3%	-2.3%
BoA Merrill Lynch Index-Linked Gilts	697.6	1.2%	0.5%	10.8%
BoA Merrill Lynch £ Corporate	475.7	0.4%	0.3%	-1.4%
Commodities				
Oil (West Texas Intermediate, GBP)	$66.3	-14.7%	0.2%	41.7%
Gold (GBP)	$1767.6	-1.0%	-2.0%	-3.2%
S&P / GSCI (GBP)	2,592.3	-1.9%	0.6%	35.6%

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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