

Weekly Bulletin: A lacklustre week for riskier asset types

Key takeaways

Over the past week, new COVID-19 variants remained in the spotlight, while the oil price fell as producers squabbled. Meanwhile, central bank policies around the world may be beginning to diverge.

- New variants of the COVID-19 virus continue to challenge policymakers around the world. Some places are still implementing fresh restrictions; in Japan, the Tokyo Olympics will be held largely without spectators. However, at a global level, the so-called 'third wave' of deaths in the pandemic appears to be easing, while data continues to suggest that vaccine rollouts are working in the fight against the disease.
- The world's leading group of oil-producing nations (OPEC+) failed to reach a deal on production increases. This raised concerns about compliance breaking down within the cartel; markets feared that the disagreement could lead to members breaking ranks and raising production levels. In turn, this led to some weakness in the oil price over the week.
- In China, inflation data appears to be increasing at a slower rate, which has been attributed to the government's efforts to curb a surge in commodity prices. This could be an early indication of inflation beginning to ease off more broadly, supporting our stance that recent sharp rises in global inflation will prove to be transitory. We continue to believe that short-term inflationary pressures should fade as demand and supply begin to rebalance.
- Closer to home, the European Central Bank's latest update altered its inflation target, signalling that the bank's policymakers will tolerate an overshoot of their 2% target. This follows in the footsteps of the US Federal Reserve Bank (Fed), where some policymakers have recently indicated that they anticipate a tapering of Fed support to occur somewhat earlier than previously expected.
- However, in China, the central bank has reduced its reserve requirement ratio (the amount of funds banks need to hold in reserve) for the first time since April 2020, in order to release more liquidity into the economy. This signals an element of divergence in approach among the world's central banks, with some policymakers still pumping new support into the economy while others look to ease back on ultra-accommodative measures.

Weekly market moves

Global stock markets were broadly weaker over the past week, with emerging markets the hardest hit. In China, market regulators fined large technology companies over anti-monopolistic behaviour, leading to share-price weakness among major tech businesses like Alibaba and Tencent.

Bond prices benefited from the more risk-averse market mood: bond prices rose while bond yields (which move inversely to prices) fell.

Gold also rose slightly as investors moved towards traditional 'safe-haven' asset types.

What to look out for this week

'Earnings season' for the second quarter of 2021 begins this week, with businesses releasing their latest results and forecasts. Results are expected to be exceptionally good. Indeed, we expect to see strong earnings growth continuing over the next 6-12 months, given the backdrop of economic growth.

Economic data due for release this week includes the latest US inflation figures, as well as retail sales and consumer confidence updates (also in the US), and China's economic growth data for the second quarter of the year.

Market moves (as at 9 July 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,003.8	0.2%	1.5%	13.0%
MSCI United Kingdom Mid Cap	1,401.4	0.9%	2.5%	13.8%
MSCI United Kingdom Small Cap	475.4	0.1%	2.0%	12.8%
MSCI World (GBP)	2,303.0	-0.1%	1.1%	13.4%
S&P 500 (GBP)	4,369.6	0.1%	1.6%	15.8%
MSCI Japan (GBP)	1,172.3	-1.5%	-0.9%	-0.5%
MSCI Europe ex-UK (GBP)	1,643.3	0.0%	0.8%	11.9%
MSCI Pacific ex-Japan (GBP)	1,754.4	-0.9%	-1.2%	7.2%
MSCI Emerging Markets (GBP)	74,119.1	-2.9%	-4.0%	2.1%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,352.1	0.6%	0.8%	-5.1%
BoA Merrill Lynch Index-Linked Gilts	620.0	1.6%	1.5%	-1.5%
BoA Merrill Lynch £ Corporate	472.6	0.4%	0.5%	-2.0%
Commodities				
Oil (West Texas Intermediate, GBP)	\$74.6	-1.3%	1.4%	52.5%
Gold (GBP)	\$1806.0	0.7%	2.3%	-5.5%
S&P / GSCI (GBP)	2,584.0	-1.9%	-0.7%	29.2%

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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