

## Weekly Bulletin: Higher inflation leaves policymakers undeterred

### Key takeaways

Economic data held the headlines over the past week, with US and UK inflation higher than expected and growth levels in China pausing for breath. For much of the UK, pandemic-related restrictions come to an end today.

- In England and Scotland, most pandemic-related restrictions have now been lifted. While this represents something of a return to 'normal', public opinion still remains cautious. The removal of face masks has been controversial, particularly as cases of the 'Delta' variant of the COVID-19 virus continue to rise. Nevertheless, the number of hospitalisations as a proportion of confirmed cases has been relatively contained, demonstrating that the UK's vaccination rollout is providing some protection against the severity of the pandemic.
- In the US, the latest monthly inflation figures were once again higher than expected, with a headline reading of 5.4% for June (versus an estimated 4.9%). This is the highest level since the 2008 financial crisis. Inflation data in the UK also surprised on the upside, coming in at 2.5% versus estimates of 2.2%. A significant chunk of this increase was driven by 'reopening' sectors of the economy, which are facing a surge in demand as pandemic restrictions are eased. We continue to hold the view that these high levels of inflation will prove to be temporary.
- In his semi-annual testimony to US Congress last week, the US Federal Reserve Bank (Fed) Chair Powell stood firm on this issue, saying that inflation is transitory. He also stated that the US economic recovery still has not progressed enough to begin scaling back the bank's ultra-accommodative levels of support. Powell's comments support the view that the Fed will take a very patient approach in normalising their policies, despite inflation rising by more than expected.
- The latest growth data from China shows that the world's second-largest economy is now recovering from the pandemic at a slower pace than at the start of 2021. China's economy grew at an annual growth rate of 7.9% in the second quarter of the year, down from a record rate of 18.3% in the first quarter. A slowdown in China's growth rate was predictable, though, as the economy normalises following the lows of the pandemic. Other economic indicators in China, such as recent data covering the retail sector, remain strong.

### Weekly market moves

In a mixed week for financial markets, most global stock markets fell slightly. The shares of smaller businesses led the negative moves.

Bond yields fell (bond prices, which move inversely to yields, rose) as central banks reiterated their supportive stance, and investors continued to worry about reaching the peak of economic growth.

Oil prices were softer over the week, in keeping with a more risk-averse mood among investors.

### What to look out for this week

'Earnings season' for the second quarter of 2021 continues, with businesses releasing their latest results and forecasts. This week's highlights include finance giants like UBS and American Express, as well as major tech businesses like Intel, Netflix and Twitter.

## Market moves (as at 16 July 2021)

	Index Levels	Last Week	Month to Date	Year to Date
<b>Equity</b>				
MSCI United Kingdom	1,973.7	-1.5%	-0.1%	11.3%
MSCI United Kingdom Mid Cap	1,381.6	-1.4%	1.1%	12.2%
MSCI United Kingdom Small Cap	465.5	-2.1%	-0.2%	10.4%
MSCI World (GBP)	2,284.8	-0.6%	0.5%	12.7%
S&P 500 (GBP)	4,327.2	-0.7%	0.9%	15.1%
MSCI Japan (GBP)	1,182.1	1.2%	0.2%	0.6%
MSCI Europe ex-UK (GBP)	1,637.3	-0.6%	0.2%	11.2%
MSCI Pacific ex-Japan (GBP)	1,775.7	0.9%	-0.3%	8.1%
MSCI Emerging Markets (GBP)	75,125.6	2.0%	-2.1%	4.2%
<b>Bonds</b>				
BoA Merrill Lynch Conventional Gilts	1,361.2	0.7%	1.4%	-4.5%
BoA Merrill Lynch Index-Linked Gilts	629.9	1.6%	3.1%	0.0%
BoA Merrill Lynch £ Corporate	474.2	0.3%	0.9%	-1.7%
<b>Commodities</b>				
Oil (West Texas Intermediate, GBP)	\$71.5	-3.9%	-2.7%	46.5%
Gold (GBP)	\$1824.3	1.3%	3.6%	-4.2%
S&P / GSCI (GBP)	2,575.5	0.0%	-0.7%	29.1%

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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