Weekly Bulletin: Signs of economic recovery boost the market mood

Key takeaways

As the 'third wave' in the COVID-19 pandemic falls back in the face of ongoing vaccination programmes, signs of economic recovery continue to emerge.

- Successful vaccine rollouts continue to dramatically improve COVID-19 case numbers and fatality rates around the world. Latin America and Asia have become the latest focal points of the pandemic, but – globally – the so-called 'third wave' of infections is easing. India (the epicentre of the third wave) continues to see case numbers fall. In the UK, while case numbers have been rising, associated fatalities have not meaningfully increased. This is naturally relevant, and helpful, for the government's economic reopening plans.
- The latest US inflation data ('core' personal consumption expenses, which strips out volatile items like food and energy) was up 3.4% last month, versus May 2020. This increase was in line with financial market expectations, pointing to strong but not rampant inflation. Current pricing in financial markets suggests that investors believe that the US central bank will curtail any longer-term inflation problems.
- Sticking with the US central bank, following news in the previous week that the average US Federal Reserve (Fed) policymaker expects interest rate rises to begin in 2023, last week saw a spate of Fed speakers attempting to calm market unease. Speakers reinforced the message that interest rates would remain unchanged pending a broad-based recovery in employment markets, and that any eventual changes would be driven only by conclusive data.
- The latest economic survey data (preliminary PMI – or Purchasing Managers' Index) delivered positive signals for the ongoing economic recovery. This survey tends to be a useful indicator for economic activity ahead, and pointed to continued output growth (expansion) in the UK, US and Europe, while Japan showed a small contraction. The data indicated signs of improvement in the manufacturing sector, while the services sector appeared to weaken slightly.
- In the US, President Biden announced that a bipartisan deal had been reached on his infrastructure package, including $579bn in new spending. No tax rises are required to fund the proposal (enabling Republican support for the bill), with the main sources of funding being unused pandemic relief funds, improving tax collection rates and sales of oil from the strategic petroleum reserve. However, the bill must still pass through the US Congress, leaving Biden to walk a political tightrope.

Weekly market moves

As the global economy continues to recover, stock markets performed strongly over the past week, with US markets leading the way. Japan, however, saw a slight contraction.

In keeping with this 'pro-risk' market mood, bond prices fell slightly across the board (bond yields, which move inversely to prices, rose) over the same period.

It was another mixed week for commodities, with oil continuing to push higher while silver weakened.

What to look out for this week

This Wednesday, the OECD (the Organisation for Economic Co-operation and Development) will meet to finalise its proposals for a global minimum corporate tax rate.

The leading group of oil producing nations (OPEC+) will hold its 181st meeting this Thursday. Analysts anticipate that the group will increase output from August onwards.

In the realms of economic data, all eyes will be on Friday's release of the latest US jobs and employment data.

Market moves (as at 25 June 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,003.6	1.7%	1.8%	12.9%
MSCI United Kingdom Mid Cap	1,384.8	2.1%	2.1%	12.4%
MSCI United Kingdom Small Cap	473.1	1.4%	-0.6%	12.1%
MSCI World (GBP)	2,277.9	1.6%	4.0%	11.6%
S&P 500 (GBP)	4,280.7	2.0%	3.9%	12.8%
MSCI Japan (GBP)	1,202.4	-0.5%	3.0%	0.7%
MSCI Europe ex-UK (GBP)	1,648.3	1.2%	2.9%	12.2%
MSCI Pacific ex-Japan (GBP)	1,772.4	-0.3%	1.5%	8.7%
MSCI Emerging Markets (GBP)	76,791.7	0.6%	2.6%	6.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,334.7	-0.7%	0.2%	-6.3%
BoA Merrill Lynch Index-Linked Gilts	611.0	-0.5%	-0.2%	-3.0%
BoA Merrill Lynch £ Corporate	468.0	-0.2%	0.5%	-3.0%
Commodities				
Oil (West Texas Intermediate, GBP)	$74.0	2.5%	14.0%	50.4%
Gold (GBP)	$1786.7	0.0%	-3.9%	-7.0%
S&P / GSCI (GBP)	2,568.6	1.1%	5.1%	27.6%

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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