

Weekly Bulletin: Has the US reached 'herd immunity'?

Key takeaways

Financial markets continued to keep a wary eye on inflation data, while a semblance of herd immunity to COVID-19 may have been achieved in the US.

- Inflation continues to be a running theme in media headlines, with high readings continuing to surprise investors. Very low prices this time last year can explain some of the jump on a year-on-year basis, but supply chain disruptions and high commodity prices have also pushed inflation higher, alongside rising demand as economies reopen.
- Central banks are of the view that these inflation jumps will prove to be transitory, fading as the year progresses. Financial markets will be watching closely, concerned that – should higher inflation turn out to be longer-lasting – economic stimulus from central banks (which has had a positive impact on risk assets like shares) will be eased back.
- The latest meeting minutes from the US Federal Reserve Bank (Fed) showed that some policymakers were open to a debate at 'upcoming meetings' regarding scaling back the Fed's bond purchases, should the US economy continue to progress rapidly. For now, though, it is important to note that the pool of global liquidity (bolstered by central bank support) is expected to remain huge – an estimated US \$155trn. This is a considerable reservoir for financial markets, and it may be a very long time before any central banker dares to speak about reducing it.
- Meanwhile, at a global level, the rate of new COVID-19 cases remains on a downward trend. Conservatively, around 75% of the US adult population now has some immunity to the virus, which may be as close to adult herd immunity as is possible. Some key states remain under lockdown restrictions, leading to higher unemployment concentrations in these areas. Economic reopening in these states should lead to further improvements in data.
- Sticking with the world's leading economy, US housing markets should be another source of confidence for the global economic outlook. Home prices in the US have climbed substantially in recent months, while the supply of existing homes remains limited. In combination with other encouraging data, this is positive for confidence in the US economy, and by extension the global recovery.

Weekly market moves

A fairly quiet week for traditional financial markets saw mixed performances in global stock markets in sterling terms, while bond yields moved a little lower (bond prices, which move inversely to their yields, rose slightly).

Emerging market shares performed a little better than their global peers over the week (in part thanks to a weaker US dollar), while shares in smaller and mid-sized companies also did comparatively well.

A number of commodity markets fell back from their multi-year highs, although gold continued to claw back some of its year-to-date losses.

What to look out for this week

The US plays host to a number of key economic data releases this week. This includes the latest personal consumption data and an update to economic growth figures for the first quarter of the year.

European leaders are currently engaged in a special European Council meeting in Brussels. The agenda is expected to cover a range of topics from climate change to COVID-19, as well as the future of EU relations with the UK.

Market moves (as at 21 May 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,974.5	-0.3%	1.4%	11.0%
MSCI United Kingdom Mid Cap	1,353.6	-0.1%	-0.3%	9.4%
MSCI United Kingdom Small Cap	471.1	0.3%	-0.8%	11.4%
MSCI World (GBP)	2,203.1	-0.3%	-1.9%	6.5%
S&P 500 (GBP)	4,155.9	-0.9%	-2.7%	7.4%
MSCI Japan (GBP)	1,163.0	1.2%	-1.6%	-2.7%
MSCI Europe ex-UK (GBP)	1,592.7	0.7%	1.1%	8.4%
MSCI Pacific ex-Japan (GBP)	1,737.6	-0.2%	-1.7%	5.8%
MSCI Emerging Markets (GBP)	74,134.0	1.2%	-3.4%	0.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,320.2	0.3%	-0.4%	-7.4%
BoA Merrill Lynch Index-Linked Gilts	599.4	1.4%	0.7%	-4.8%
BoA Merrill Lynch £ Corporate	463.3	0.2%	-0.3%	-4.0%
Commodities				
Oil (West Texas Intermediate, GBP)	\$63.9	-2.7%	-1.6%	27.5%
Gold (GBP)	\$1875.9	1.5%	3.8%	-4.1%
S&P / GSCI (GBP)	2,429.3	-2.2%	-2.2%	18.6%

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