Handelsbanken
Asset Management

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Weekly Bulletin: Rotation among the top stock-market performers

Key takeaways

Slight changes to the US central bank's medium-term predictions for interest rates led to shifts among the assets leading financial markets. Meanwhile, economic activity continues to pick up as COVID-19 cases and fatalities fall.

- The latest updates from the US Federal Reserve Bank (Fed) suggested that the central bank could begin to increase interest rates in 2023. This comes in response to greater confidence in the economic and labour market backdrop, though Chair Powell stressed once again that significant improvements must be seen in the latter before any such steps can be taken.
- Bond markets experienced some volatility in the wake of the Fed announcement on Wednesday, but had largely calmed by the end of the week. Nevertheless, with slightly higher US interest rates now being priced in by bond markets, inflation expectations appear slightly suppressed.
- In stock markets, this chain of events also led to some surprising shifts among the best performing shares. So-called 'quality' and 'growth' businesses (such as those in the technology sector), which tend to do well in a low interest rate environment, performed well during the height of the COVID-19 pandemic in 2020, but have underperformed of late. However, this news from the Fed has helped them regain some poise. At the same time, shares in 'value' businesses – which are typically cheap in relation to basic measures of their corporate performance, and have done relatively well in recent history – were traded less favourably following the news.
- Meanwhile, reductions in confirmed new COVID-19 cases (and associated deaths) have continued to fall globally. Vaccination programmes and the emergence of some herd immunity are playing their part. In keeping with these signs of recovery in human health, economic activity data continues to deliver positive news.
- Manufacturing activity remains strong too, arguing in favour of corporate profitability and potential upgrades to business earnings. This is good news for stock markets, should remain in situ for some time, though we remain alert to any signs of peaking growth.

Weekly market moves

Overall, global stock markets had a mixed seven-day period, with UK and US markets weaker while shares in Japan and emerging markets landed in positive territory.

Bonds were fairly flat over the same period, though this disguises some short-term volatility following the Fed's mid-week predictions for interest rates.

In commodity markets, oil moved higher while precious metals (such as gold and silver) struggled as a result of recent US dollar strength.

What to look out for this week

First estimate economic survey data ('flash' Purchasing Managers Index) will be released on Wednesday, giving an initial indication as to how well the global economy has fared in the second quarter of 2021. Growth is expected to have remained on an upward trajectory.

In a week dominated by central bank speakers, the Bank of England will announce its latest policy decisions on Thursday. No changes to current policies are anticipated.

Market moves (as at 18 June 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,970.9	-1.5%	0.0%	10.9%
MSCI United Kingdom Mid Cap	1,356.6	-1.2%	0.0%	10.0%
MSCI United Kingdom Small Cap	466.6	-2.2%	-2.0%	10.5%
MSCI World (GBP)	2,229.4	0.4%	2.3%	9.8%
S&P 500 (GBP)	4,166.5	0.4%	1.9%	10.6%
MSCI Japan (GBP)	1,192.9	1.7%	3.5%	1.2%
MSCI Europe ex-UK (GBP)	1,630.8	-0.8%	1.7%	10.8%
MSCI Pacific ex-Japan (GBP)	1,783.0	0.7%	1.9%	9.1%
MSCI Emerging Markets (GBP)	75,935.5	0.8%	2.0%	5.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,343.6	0.2%	0.9%	-5.7%
BoA Merrill Lynch Index-Linked Gilts	614.4	-1.3%	0.4%	-2.4%
BoA Merrill Lynch £ Corporate	469.1	0.0%	0.7%	-2.8%
Commodities				
Oil (West Texas Intermediate, GBP)	$71.6	3.2%	11.2%	46.7%
Gold (GBP)	$1773.1	-3.6%	-3.9%	-7.0%
S&P / GSCI (GBP)	2,520.5	0.0%	3.9%	26.2%

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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