

Weekly Bulletin: An unsettled start to the holiday season

Key takeaways

A mixed week for markets with optimism generated from strong corporate earnings reports being somewhat offset by concerns about the spread of the delta variant of the coronavirus and further regulatory crackdowns in China.

- The second quarter earnings season has so far been very good with about half of all companies having reported. Strong earnings delivery has been supported by the unwinding of COVID dislocations and an acceleration in economic activity. Some 88% of companies that have already reported their earnings data beat the levels expected, with the majority also upgrading their profits estimates for the full year.
- The spread of the delta variant of the coronavirus continues to cause concern with a resurgence in a number of countries. Investor surveys indicate that many are more worried by this than by the threat of rising inflation. However, England, which relaxed restrictions on 19 July, is proving to be a fascinating test case as to how easy/difficult it is to fully open up a highly vaccinated country with high levels of the delta variant in the community. New cases are falling and the rate of hospitalisations and deaths remain subdued. There is a tentative suggestion that the country may have reached or be close to reaching herd immunity, given the now very high level of antibodies across the population. Only time will tell.
- Meanwhile in China, the authorities have extended their regulatory crackdown on various sectors of the economy. Regulation has been an ongoing theme for a number of months, however the timing, content and implication of the announcement around the education sector was interpreted as an attack on the private market and investor concerns subsequently spread to other sectors. In recent decades, China has seen huge economic success, but inequality has also been rising. Regulation is partly a desire to see economic gain being more widely spread. China's moves are consistent with a desire to ease the financial burden on lower and middle income households and to support the three child policy, as well as with the greater government involvement that has been evident under the current leadership. The long-term nature of China's social welfare goals indicate that the regulatory crackdown could continue for a while yet, but the authorities moved to calm investor fears at the end of last week.

Weekly market moves

Global stock markets were broadly flat to slightly lower last week for sterling-based investors. Emerging markets were particularly weak as rising COVID cases across the region and the regulatory crackdown in China took their toll.

Bonds made money with yields moving lower (bond prices and yields move in opposite directions), and sterling was stronger against most currencies.

What to look out for this week

The main event on Friday will be the US employment report. Federal Reserve Chair Powell said in his press conference after last week's Fed meeting that "the labour market has a ways to go", and that the unemployment rate of 5.9% "understates the shortfall in employment".

There are also a further 150 earnings reports from S&P 500 companies, and four monetary policy decisions from G20 central banks, including the Bank of England on Thursday. No changes are expected from the Bank with the bank rate being kept at 0.1%.

Market moves (as at 30 July 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,979.3	0.2%	0.3%	11.7%
MSCI United Kingdom Mid Cap	1,409.3	-0.5%	3.2%	14.5%
MSCI United Kingdom Small Cap	477.0	0.3%	2.4%	13.2%
MSCI World (GBP)	2,314.6	-1.2%	1.2%	13.4%
S&P 500 (GBP)	4,395.3	-1.4%	1.7%	16.0%
MSCI Japan (GBP)	1,162.4	-0.6%	-1.9%	-1.5%
MSCI Europe ex-UK (GBP)	1,660.3	-0.3%	1.5%	12.7%
MSCI Pacific ex-Japan (GBP)	1,766.4	-1.8%	-2.1%	6.2%
MSCI Emerging Markets (GBP)	71,753.0	-3.6%	-7.3%	-1.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,380.4	0.3%	2.9%	-3.1%
BoA Merrill Lynch Index-Linked Gilts	649.2	0.0%	6.3%	3.1%
BoA Merrill Lynch £ Corporate	477.7	0.2%	1.6%	-1.0%
Commodities				
Oil (West Texas Intermediate, GBP)	\$73.8	1.1%	-0.2%	50.1%
Gold (GBP)	\$1825.8	0.3%	2.9%	-4.9%
S&P / GSCI (GBP)	2,638.7	0.5%	0.9%	31.2%

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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