MARKET COMMENTARY

July 2021

SNAPSHOT

- Materials shortages drive global inflation higher
- US data still strong despite supply/labour shortages

All percentages below are monthly returns

EQUITIES

US MARKETS
US data still strong

2.3%
US 500

UK MARKETS
Await unlocking restrictions

0.0%
UK ALL SHARE

EMERGING MARKETS
Muted

-0.1%
EM

BOND MARKETS

BONDS
UK gilts benefit

UK GILTS	0.7%
US TREASURIES	0.6%
GLOBAL CORPORATE BONDS	-0.1%
GLOBAL HIGH YIELD BONDS	0.2%

*Values represent bond index returns

CURRENCIES

STERLING
Sterling takes a hit

Pound vs Other Currencies

GBP vs USD	GBP vs JPY	GBP vs EUR	GBP vs CNY
-2.9%	-1.4%	+0.3%	-1.4%

KEY INDICATORS

GOLD – XAU/USD
-7.0%

OIL – BRENT CRUDE
8.4%

COMMODITIES
7.0%

WHEAT

INFLATION – UK CPI
2.1%

GLOBAL MARKETS

Inflation weighs on the markets...

US MARKETS

Shortages constrain growth...

The US market currently has a number of positive and negative factors to evaluate – a massive stimulus package, going directly to the man in the street, and an aggressive growth target from the Federal Reserve, but also a slowing vaccine roll-out, now struggling to meet its daily targets. Moreover, what has become evident from recent data and comments is that growth is now being stifled by shortages of raw materials, which is largely due to Covid, and will work through, and also labour. One reason for the labour shortage is likely, ironically, to be the stimulus cheques that have meant that many seasonal workers will not need to work for the moment. These constraints are fuelling the rise in inflation, but investors seem willing to look through this short-term effect.

2.3%

US 500

EUROPEAN MARKETS

Data points to continued recovery....

Although economic data in the markets of continental Europe did not make further progress in June, the latest numbers, particularly from the PMI surveys, showed confidence and expectations still to be running at very high levels. The vaccination programmes of the EU nations continue, and have accelerated to the point where they are now ahead of the UK. Also the prospect of those EU countries that benefit greatly from tourism, such as Greece and Italy being able to do so once again this summer, has boosted investor confidence.

1.4%

Euro 600 Index

UK MARKETS

Mixed on lockdown extension....

UK shares were broadly unchanged in June, with weaker Sterling boosting the FTSE 100 stocks, but some areas of the market were set back by the announcement on 14th June that the anticipated end of lockdown restrictions in the UK would be delayed by another four weeks, with the unlocking now coming no earlier than 19th July. Inflation fears were also foremost in investors' minds as the May inflation print showed a jump to 2.1%, which, while not unexpected, is above the Bank of England's 2% target.

0.0%

UK All Share

JAPANESE MARKETS

Slightly ahead of wider Asia...

In its monthly assessment of the economy, the Japanese government drew attention to the impact of Coronavirus, noting increased weakness in some parts of the economy as people cut back on overall spending. Manufacturing industries, such as car manufacturers are not performing well, but those industries connected to information technology are strong. Overall, it seems likely that the Japanese economy grew by just 0.5% year-on-year in the second quarter, but a preliminary estimate is not due until 16th August.

1.1%

Japan Index

DISCLAIMER – The value of investments and the income from them can go down as well as up and past performance is not a guide to future performance. Returns are in local currency unless indicated otherwise. Source: Bloomberg.

THE WORLD AT A GLANCE

	2016	2017	2018	2019	2020	June 21	Year to Date
UK CASH	0.4%	0.3%	0.6%	0.7%	0.2%	0.0%	0.0%
US DOLLAR	3.6%	-9.9%	4.4%	0.2%	-6.7%	2.9%	2.5%
UK GILTS	10.1%	1.8%	0.6%	6.9%	8.3%	0.7%	-5.5%
US TREASURIES	1.0%	2.3%	0.9%	6.9%	8.0%	0.6%	-2.4%
GLOBAL CORPORATE BONDS	3.7%	8.9%	-3.2%	10.7%	10.0%	-0.1%	-1.8%
GLOBAL HIGH YIELD BONDS	14.3%	10.4%	-4.1%	12.6%	7.0%	0.2%	2.1%
US 500	12.0%	21.8%	-4.4%	31.5%	18.4%	2.3%	16.7%
UK ALL SHARE INDEX	12.5%	9.0%	-13.0%	14.2%	-12.5%	0%	10.7%
EURO 600 INDEX	-1.2%	7.7%	-13.2%	23.2%	-4.0%	1.4%	14.5%
JAPAN INDEX	-1.9%	19.7%%	-17.8%	15.2%	4.8%	1.1%	8.4%
ASIA EX-JAPAN	6.1%	35.6%	-12.3%	17.9%	22.4%	0.7%	5.9%
EMERGING MARKETS	8.6%	34.3%	-16.6%	15.4%	15.8%	-0.1%	5.0%
COMMODITIES	32.8%	-3.4%	-8.5%	13.1%	-26.1%	7.0%	31.6%
GOLD	7.7%	12.8%	-2.8%	18.0%	20.9%	-7.0%	6.3%
HEDGE FUNDS	2.5	6.0%	-6.7%	8.6%	6.6%	0.4%	3.9%

Source: Bloomberg

Total Return – Local Currency

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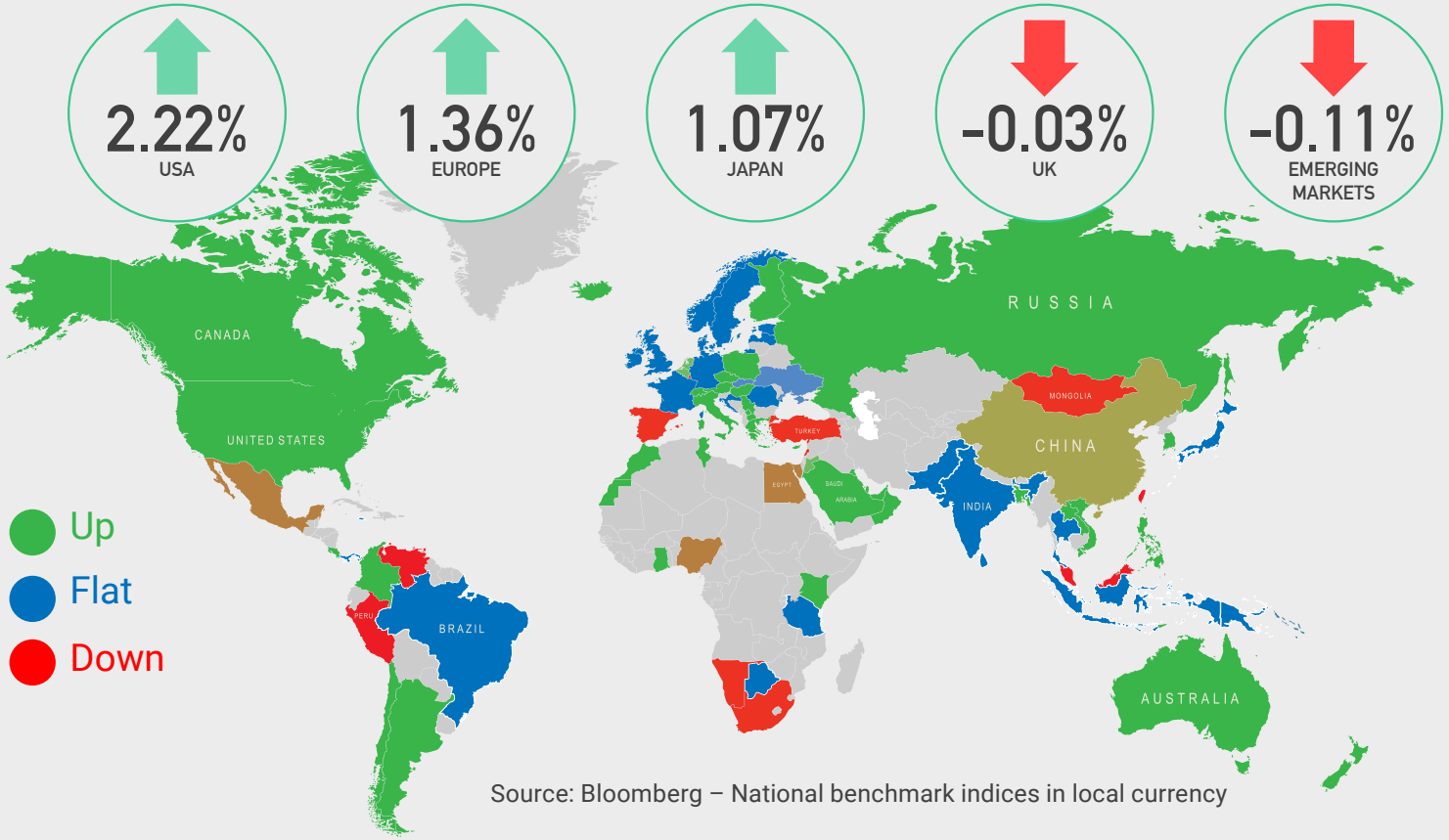
WORLD EQUITY MARKETS

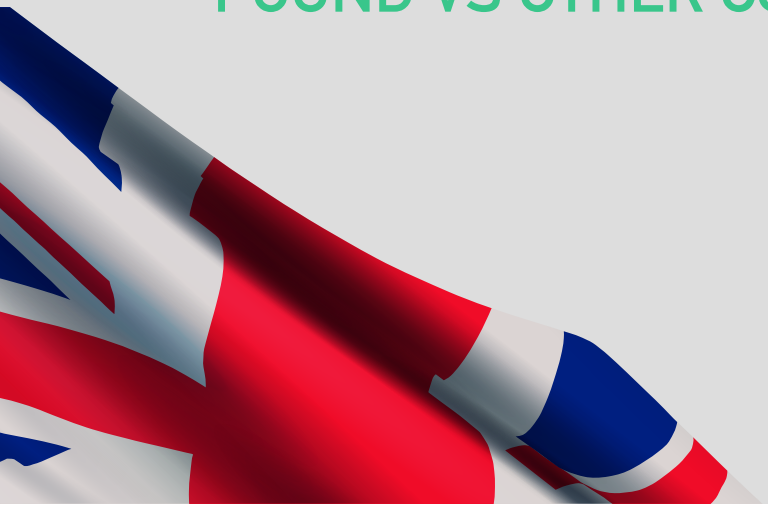


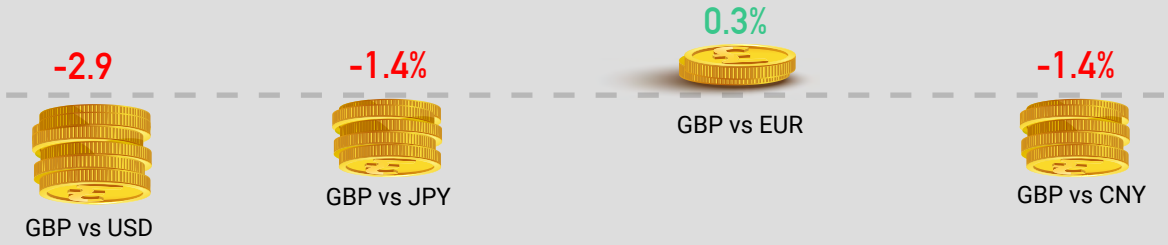
Source: Bloomberg – National benchmark indices in local currency

Key Points

- Although broadly positive, globally equity markets were more muted in June than previous months.
- The US IM and jobs data showed shortages in both materials and labour, constraining the rate of growth.
- Several emerging economies recorded resilient GDP numbers.
- However, Chinese indicators signalling that the economy is decelerating, dampening some emerging markets.
- Eurozone economy continued its recovery.

POUND VS OTHER CURRENCIES





Source: Bloomberg

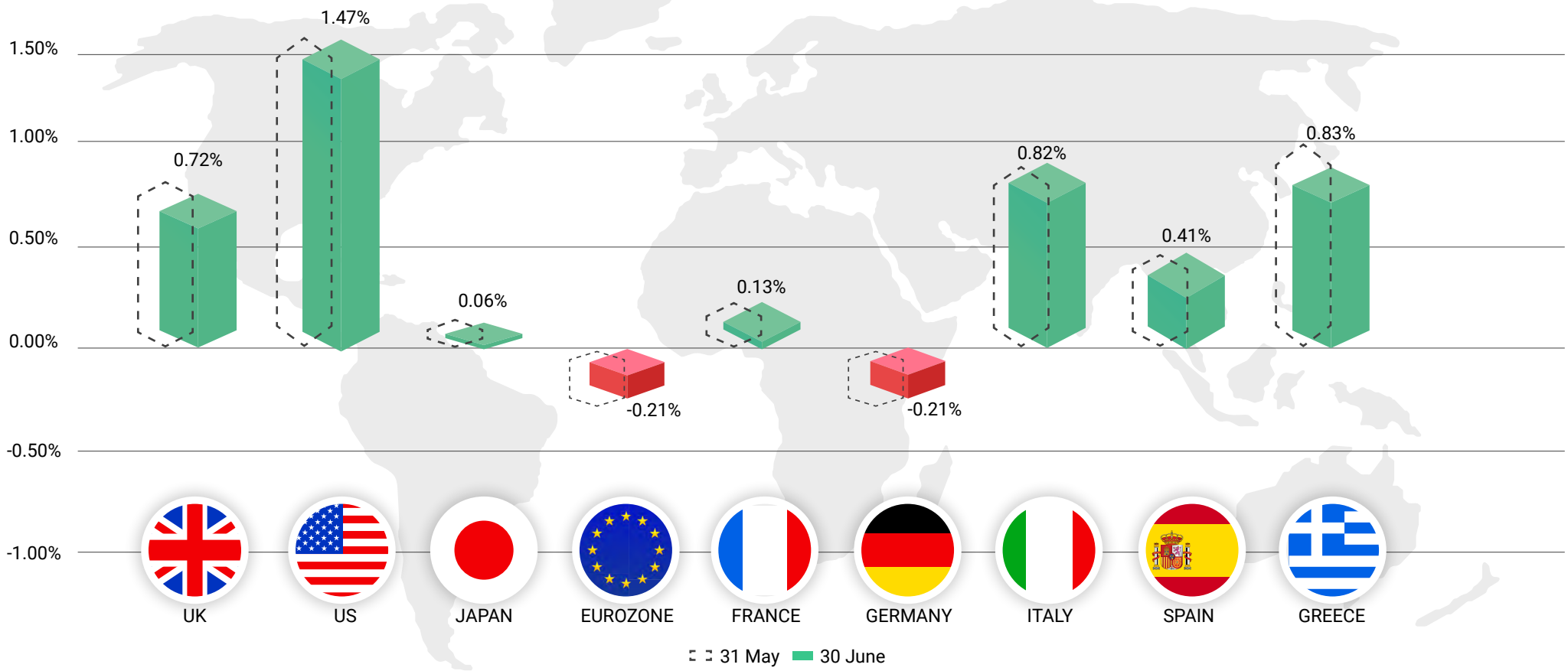
DOLLAR VS OTHER CURRENCIES

Key Points

- Sterling fell against most currencies, in light of its recent strength this year
- Sterling investors in overseas markets relieved to see some weakness in the currency.
- Strong gains in the dollar, despite what traditionally is a weak month.
- Dollar rally eased the nerves of technical analysts, who feared further falls after May.

GENERIC 10-YEAR YIELDS*

*A Generic bond is a theoretical bond that always has the specified tenor, unlike a Benchmark bond, which is a physical bond, with a decreasing tenor.



Key Points

- Bond yields across most markets edged lower, providing positive returns to bond investors.
- Added boast to UK bond investors from weaker Sterling.
- High Yield Bonds were the best performers.
- High yields only part of the global bond market to benefit UK investors this year, some 12% ahead of their government counterparts.
- Further guidance from the Fed suggesting US rates may rise sooner than expected, but still no sooner than late 2023.

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