

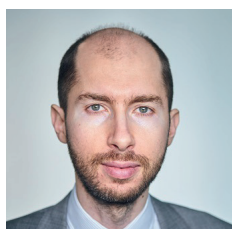
A month in the markets



Private
Banking

By Stefano Amato

July 2021



Stefano Amato

Head of Multi Asset Solutions

Month of June

Market Review

It was a good month for global stock markets in June as the world economy continued to recover and investor sentiment strengthened. Stock markets in the US, Europe and Asia Pacific led the way, although China struggled. After generating negative returns for investors for much of the spring, bond markets were positive over the month, with government bond prices in major markets such as the US, UK and Japan rising.

Successful vaccination rollouts have helped to improve COVID-19 case numbers around the world, and this has allowed economies to re-open. However, there were renewed concerns towards the end of the month as the highly infectious Delta variant led to a surge in cases in some countries.

UK and Europe

The economic recovery continued in both the UK and Europe throughout June as COVID-19 restrictions were eased and

businesses re-opened. In the UK, business activity saw further growth, with employers hiring staff at a high rate in June. The manufacturing sector remained firmly in growth territory, with high levels of job creation in response to a rise in new orders and output. That said, manufacturers were also grappling with a backlog of orders and constrained production due to global supply chain disruption stemming from the pandemic. In addition, inflation began to rise over the month as supply chain issues pushed up the cost of materials and goods.

In Europe, there were signs of solid economic growth. Business activity grew at the fastest rate for 15 years in June¹ as restrictions were lifted and businesses opened up. Job creation was strong, but high demand for goods and services, alongside the supply chain disruptions, created a backlog that pushed up prices and depleted warehouse inventories. Overall, both the manufacturing and services sector in Europe saw steady growth over the month, with the inflation rate for the month coming in at 1.9%², just below the European Central Bank's target of 'close to but below 2%'.

US

So far in 2021, the US economy has seen steady job creation and falling unemployment figures, and that trend continued in June. While there were around 400,000 new claims for unemployment benefits each week over the past month³, figures from the Bureau of Labor Statistics⁴ showed that some 850,000 jobs were created during the month. The unemployment rate edged slightly up to 5.9%, compared with 5.8% in May.⁵

Generally speaking, the US economy is in good shape. Consumer confidence reached a 16-month high in June and residential property prices continued to rise. However, much like other parts of the world, a

PLEASE REMEMBER THAT ALL INVESTMENTS CARRY VARYING DEGREES OF RISK TO YOUR MONEY. THE VALUE OF INVESTMENTS AND ANY INCOME FROM THEM CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN THE FULL AMOUNT YOU INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS.

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combination of pent-up demand among consumers and supply chain disruption that has created a shortage of goods, has caused prices to rise. As a result, the core US inflation rate reached 3.8% in May – its highest level since the early 1990's⁶. During its June meeting, the US Federal Reserve's Federal Open Market Committee decided not to raise interest rates despite inflation running higher than its target, stating it would not stop providing support to the economy until 'progress is made on reducing unemployment' and inflation is kept above its 2% target.

Asia Pacific

In China, which has been one of the strongest economies over the past year, rising COVID-19 cases and higher costs for raw materials began to bite. Factory activity in the country dipped to its slowest point for four months in June, owing mostly to rising costs, a global computer chip shortage and spiking infection rates, as well as weaker export demand. Similarly, both South Korea and Japan faced slowdowns in their factory sectors, caused in part by disruption in the auto sector, which has been hit hard by the computer chip shortage. While Japan's manufacturing sector grew at a slower pace in June, confidence in the sector improved, as did sentiment in the services sector. Nevertheless, consumer confidence in Japan improved in June as state-of-emergency COVID-19 restrictions were eased.

Outlook

We have a positive, but cautious, view for stock markets and the global economy in the months ahead. Vaccination programmes are progressing around the world, which should help to contain COVID-19 infections and hospitalisations and allow economies to re-open. We have seen higher inflation lately as consumer spending and business activity has picked up, but our current expectation is that this is a temporary rise due to the pandemic rather than a long-term trend.

At the present time, market volatility is fairly low, although with the Delta variant on the rise in many regions of the world, there will likely be some bumps along the way. We continue to monitor inflation, retail sales and manufacturing data to gain visibility of the global economy. This ensures we can achieve optimal portfolio positioning moving forward.

Portfolio Activity

We made few changes to portfolios in June as our overall view remained the same.

Markets have performed well in 2021 so far as a result of positive vaccine news and ongoing support from governments and central banks. While we expect stock markets still have room to grow, we do not believe now is the time to take excessive risk, which is why we have a moderate overweight position in company shares relative to the portfolio benchmark. In general, we prefer developed market shares over emerging markets, with a preference for Japan and the US. We also hold thematic investments in clean energy and cybersecurity. Conversely, we remain underweight in government bonds relative to the benchmark and have a neutral position in corporate bonds.

1 Markit Economics - Eurozone economy grows at fastest rate for 15 years, 23/6/21

2 Trading Economics - Euro Area Inflation Rate, 6/21

3 Reuters, U.S. weekly jobless claims below 400,000; companies boost hiring in May, 3/6/21

4 and 5 U.S. Bureau of Labor Statistics, Employment Situation Summary, 23/6/21

6 Trading Economics, United States Core Inflation Rate, 5/21

Note: The Portfolio Investments and Atlas Portfolios are Multi-asset, globally diversified portfolios. Although the portfolios may share similar underlying investments in terms of asset and fund selection, they will differ in terms of the way the funds are managed and the proposition in which they are held. Please refer to the Key Investor Information Document (KIID) for details on the objectives of the individual funds. If you have any questions relating to specific differences of the Portfolio Investments or Atlas Portfolios fund ranges, please contact your Private Banker.

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