

A month in the markets



Private
Banking

By Stefano Amato

August 2021



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Month of July

Market Review

Stock markets became turbulent near the end of July as the Delta variant of COVID-19 secured a wider grip and China's crackdown on technology and education companies reverberated around the world. Overall, global stock markets generated modest positive returns, but there was a distinct difference in performance between individual markets. The US and Europe were both in positive territory with low single-digit returns, followed by the UK, while much of Asia Pacific was negative owing to the Chinese Government's actions.

While vaccination programmes continued to progress around the world and many economies were in the process of re-opening, the rise of the Delta variant was a major focal point as global COVID-19 cases increased over the month.

UK and Europe

Throughout July, COVID-19 cases in the UK reached levels not seen since January as the so-called 'third wave' of the pandemic

took hold. However, hospitalisations remained lower than in previous waves and there was a noticeable drop-off of new infections towards the end of the month. During the month, the UK Government withdrew all remaining COVID-19 restrictions, allowing businesses to return to normal operation. The EY Independent Treasury Economic Model (ITEM) Club - a forecasting group - estimated that the UK's economy was growing at its fastest pace for 80 years.¹ Inflation climbed to 2.5%², although spiking infection rates were still taking their toll. With employees self-isolating in larger numbers, businesses reported shortages of staff and materials, which caused business activity to grow at a slower rate than previous months.

Across the English Channel in the Eurozone, business activity grew at its fastest pace for 21 years in July³ as the economy continued to re-open. There had been concerns in the spring that Europe's vaccination programme was well behind that of North America and the UK, but by the end of July the trading bloc had overtaken the US in terms of total first doses provided. As economic activity ramped up, so too did prices on consumer goods. Inflation in the Eurozone increased to 2.2% in July from 1.9% in the previous month.⁴

US

Much like other parts of the world, COVID-19 cases spiked in parts of the US in July, driven by the Delta variant. Business activity grew at a moderate pace for the second month due to labour shortages and supply chain constraints, as has been the case in other parts of the world. Nevertheless, the numbers continued to move in the right direction over the month, suggesting a sustained recovery. While business activity grew at a slightly slower pace, the number of people claiming unemployment benefits fell to 400,000 in the final week

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of July, down from more than 900,000 in January.⁵ Meanwhile, the Commerce Department reported that economic growth reached 6.5%⁶ in the second quarter, allowing the economy to surpass its pre-pandemic level for the first time.

Asia Pacific

Countries in Asia were unable to escape the conditions affecting other parts of the world, namely rising cases of COVID-19, supply chain interruptions and shortages of materials and labour. China's manufacturing activity grew in July, but at the slowest rate for 16 months.⁷ This was due to higher material costs, equipment maintenance and extreme weather events such as floods. Away from the pandemic, China dominated headlines in July as the government continued its regulatory crackdown on technology companies. Throughout the past year, the Chinese Government has been tightening regulations on rapidly growing technology companies. In July it went a step further by banning a ride-hailing app and forcing educational companies to convert to non-profit status. Stock markets in China fell significantly on the news, which had a ripple effect on markets around the world.

In Japan, the delayed Summer Olympics began at a time when COVID-19 cases were surging. Unlike many other major economies, Japan's vaccination rate has been sluggish, with just 28% of the population having received two doses by the end of the month.⁸ Even so, the economy has recently picked up. Manufacturing output was fairly strong in July thanks to an improving global economy, but companies faced the same supply chain and shortage of materials as elsewhere in the world.

Outlook

We continue to have a positive outlook for stock markets and economies given that support from governments and central banks remain in place. While inflation in some parts of the world,

such as the UK, US and Eurozone, has increased, markets now seem to be assuming that this is a short-term spike rather than a long-term trend. Similarly, central banks have signalled that they are prepared to allow inflation to rise above target rather than increase interest rates too early. While this is positive for stock markets, the ongoing COVID-19 pandemic continues to be a cause for concern. The progress being made with vaccination programmes appears to be helping to control the virus, but there are parts of the world that remain to be vaccinated, such as the emerging markets. The longer these regions of the world remain unvaccinated, the more likely it will be that we see difficult conditions for stock markets and economies to continue.

Portfolio Activity

We continue to invest in shares, where we have a moderate overweight position relative to the portfolio's benchmark. Within shares, we have overweight positions in the US, Japan and some of Europe relative to the benchmark, and are in line with the benchmark in the UK and Asia.

Over the month, we have made a number of changes across some portfolios. Early in 2021, so-called value stocks, such as banks and leisure companies, outperformed growth stocks such as technology and healthcare when economic activity began to rebound. We decided to reduce the value component in these portfolios because we felt the period of stronger performance had run its course, choosing to reinvest the proceeds back into the index. We also exited our position in clean energy because we felt the sector had become too volatile at a time when we decided not to expose portfolios to too much volatility. This proved to be the right decision given the market turbulence at the end of the month.

In bonds, our underweight position relative to the benchmark remains for most portfolios. In our corporate bond holdings, we are underweight overall, with a preference for Europe over the UK.

1 UK economy growing at fastest rate in 80 years, says forecaster, 26/7/21

2 Consumer price inflation, UK: June 2021, 14/7/21

3 Markit Economics – Eurozone flash PMI hits 21 year high as economy reopens, 23/7/21

4 Trading Economics – Euro Area Inflation Rate, 7/21

5 U.S. Department of Labor, Unemployment insurance weekly claims, 29/7/21

6 U.S. Bureau of Economic Analysis, GDP, Second Quarter 2021 (Advanced Estimate) and annual update, 29/7/21

7 Trading Economics – China NBS Manufacturing PMI, 7/21

8 BBC, Tokyo 2020: What's happening with Covid cases in Japan? 1/8/21

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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