Alan Boswell Financial Planners

Market Update - October 2021

ALAN BOSWELL
Financial Planners

Developed-market equities were mixed for the period, while their emerging-market counterparts sank on deep losses from China and Brazil.

The global equity rally staged a modest retreat for the third quarter, with challenges accumulating as the clock ticked toward the final hours of September, flipping performance from positive to negative in most regions. Developed-market equities were mixed for the period but generally remained quite strong in the year to date; Japan was a rare bright spot among major markets during the quarter. Meanwhile, China and Brazil registered deep losses for the three-month period that sank emerging-market equity returns for the quarter, which tipped returns negative for the year to date.

Across the UK, eurozone and US, government bond rates generally increased for the full three-month period. After declining across the yield curve in July, rates rose in August and accelerated their climb in September. Inflation-indexed sovereign debt was the top-performing segment of fixed-interest markets during the quarter; high yield followed, while emerging-market debt and non-indexed sovereigns had the steepest losses.

Crude-oil prices moved lower during the first half of the quarter but then reversed to end the period higher. OPEC+ (the Organization of the Petroleum Exporting Countries led by Saudi Arabia, plus Russia) decided at the beginning of October to maintain (rather than accelerate) the monthly increase in production of 400,000 barrels per day, which sent the price of West Texas Intermediate crude oil to its highest level since 2014.

Countries with the highest percent of their populations having received at least one dose of the COVID-19 vaccine through the end of the third quarter were the United Arab Emirates (95%), Portugal (86%), Cuba (83%) and Singapore (82%), while Canada (78%), the UK (73%) and US (65%) lagged. Cuba's vaccination pace led the world as at 30 September, administering more than 2,000 daily doses per 100,000 people.

In the US, a razor-thin majority that President Joe Biden's Democrats have enjoyed in the US Congress has created an evolving array of challenges during the quarter. The progressive and moderate wings of his party debated through the end of September over the size and scope of legislation necessary to fund an infrastructure plan, the overall federal budget, and an increase in the US government's debt ceiling (that is, the total borrowing limit). US Secretary of the Treasury Janet Yellen had warned that the debt ceiling would need to be increased by mid-October in order to avoid a government shutdown.

Economic Data

- The fever pitch of UK manufacturing activity that defined conditions heading into July steadily declined over the course of the third quarter, leaving manufacturing growth at strong, perhaps more sustainable-levels in September.
- Services-sector growth also slowed from multi-decade highs, but at an even faster pace, settling at moderately healthy levels toward the end of the quarter.
- The UK claimant count (which calculates the number of people claiming Jobseeker's Allowance) continued to decline during the third quarter, by roughly 107,000 between June and August, with claimants representing 5.4% of the population as at August's reading.
- The UK economy expanded by 5.5% during the second quarter and 23.6% year over year after contracting by 1.4% during the first quarter.
- Eurozone manufacturing conditions followed a path similar to the UK's during the third quarter, but growth remained slightly stronger than the UK throughout the period after setting an all-time high in June Services growth continued to strengthen through July, but softened notably during September.
- The eurozone unemployment rate's decline persisted throughout the third quarter, sliding from 7.7% in June to 7.6% in July, and to 7.5% in August.
- The overall eurozone economy grew by 2.2% during the second quarter and 14.3% year over year after contracting by 0.3% during the first quarter.
- Growth in the US manufacturing sector moderated during most of the third quarter, yet strengthened somewhat in September.
- The services sector remained healthy but unremarkable for the third quarter as growth continued to slow from the record-fast pace registered in May.
- • New weekly US jobless claims essentially finished the third quarter where they started—between 360,000 and 375,000 filings per week—after ranging widely throughout the period from 310,000 to 420,000 claims per week.
- The US economy expanded at a 6.7% annual rate during the second quarter, up from 6.3% during the first quarter.

Summary

- In a natural reaction to the prospect of more lockdowns and delayed returns to normal life given the surge in COVID-19 infections that began this past May, investors revisited stocks that benefited the most during 2020—namely the work-at-home, big technology companies and other large-cap stocks that do well when interest rates fall (lower interest rates make future cash flows of these types of stocks more attractive). However, the subsequent bounce-back in growth- and momentum-oriented large-cap stocks at the expense of value and cyclical stocks has already shown signs of deteriorating as rates spiked at the end of the third quarter.
- Economic growth in the US and globally is likely to continue over the next year or two at a pace that meaningfully exceeds the sluggishness of the years that followed the 2007-to-2009 global financial crisis; the recent gloom about flagging economic growth is likely a bit overdone.
- Household wealth is at an all-time high, owing to booming stock and home prices. A big decline in the saving rate has helped cushion the blow to consumer spending; still, saving as a percentage of disposable income remains elevated compared to pre-pandemic levels. We think households generally can adjust to a decline in pandemic relief payments without necessitating a sharp contraction in their expenditures.
- US inflation may be near a peak, but a further acceleration appears in store for Europe. The immediate concern for households in the region is the cost of energy. Even without energy-production shortages, electricity prices across Europe tend to be much higher than in North America—especially for households, particularly in Germany. The UK is in the midst of a petrol crisis due to an inability to make deliveries to gas stations amid a severe truck-driver shortage.
- Beyond energy, Europe's reopening should cause the price of services to rise as they have in the US, albeit to far less of an extent. The overwhelming assumption is that any pickup in inflation will be short-lived.
- New weekly US jobless claims essentially finished the third quarter where they started—between 360,000 and 375,000 filings per week—after ranging widely throughout the period from 310,000 to 420,000 claims per week.
- The US economy expanded at a 6.7% annual rate during the second quarter, up from 6.3% during the first quarter.

Please note the following:

Alan Boswell Financial Planners
Prospect House, Rouen Road,
Norwich, NR1 1RE

T 01603 967967