INFORMATION FOR INVESTMENT PROFESSIONALS

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Market updates

Investment team updates | 23 July 2021

US equities

- US large cap equities have been flat over the past two weeks, having recovered losses following a steep sell-off on Monday 19 July when fears of the Covid-19 Delta variant led to a rotation out of risk assets. Small caps have fared worse, down by 3.5% over the period, while the Nasdaq 100 is positive by 0.8%. Growth has slightly outperformed value, continuing the recent trend. Over the past three months the growth factor is ahead of value by 6.5%.
- The spread of the more infectious Delta variant in the US in recent weeks has led to an increase in cases, hospitalisations and deaths related to the virus, but given the successful vaccination programme it has not led to the same level of business disruption that we witnessed in 2020. However, fears over its impact on global growth temporarily jolted markets. The S&P 500 fell by 1.6% on Monday 19 July, following a decline of 1% in the previous week – a first weekly decline in four weeks. In tandem with the decline in equities on Monday, treasuries rallied with the yield on the 10-year treasury falling below 1.2% to its lowest level since February.
- Much of the market action during the sell-off was driven by trend-following systematic and quant strategies, as opposed to fundamental investors. Indeed, 35% of the total volume in US equities on Monday came from index ETFs which pointed toward systematic players.
- Strong June inflation data helped to talk up the reflation narrative again; headline CPI rose 5.4% year-on-year, above the 5% rise reported for May.
- However, the market has rallied strongly off the bottom and had recovered all of its weekly losses by the end of Thursday 22 July. A good start to results season has helped keep equities in demand.
- With Q2 earnings season well underway, expectations are for a year-on-year earnings growth rate of 69%. If this is the actual level it will be the strongest quarterly growth rate since Q4 2009, but the results for this earnings seasons are flattered by an easier comparison with a year ago. Overall, results have been better than anticipated and guidance for Q3 and Q4 is ahead of expectations.
- Banks kicked off earnings seasons and while results were again flattered by reserve releases, net interest margin compression and stagnant loan growth continue to be significant headwinds. Morgan Stanley fared better than the rest with its increasing emphasis on wealth management. Bank of America was a laggard.
- Pepsi beat expectations on account of better organic growth, while Coca-Cola also delivered a strong set of results with organic growth and earnings per share well ahead of expectations. The market was also positive on the improving mix shift as the company pivots back to higher margin on-premise restaurant sales. Internal restructuring is also driving a healthy focus on operating leverage.

European equities

- In the UK, a major relaxation of Covid-19 restrictions has caused some concern owing to increasing numbers of cases and isolations. But hospitalisations are less of an issue than earlier in the year and supply chain concerns may be overdone.
- Companies that potentially benefit from reopening economies have suffered owing to travel restrictions hampering holidays and business travel over the summer.
- Floods in Germany and elsewhere have focused attention on the environment and on the political succession to Angela Merkel, so this is something to watch.
- European companies have generally produced robust results and better quality stocks have good visibility for future earnings and returns.

Fixed income

News

- It's been a quiet week for news as summer gets underway. In the US President Biden joined the "inflation is transitory" camp when he spoke on Wednesday 21 July, but he did warn of hiring difficulties in some sectors.
- Also in the US, housing starts were stronger in June than expected, but permits were weaker. Retail sales, meanwhile, were a lot stronger than expected, up 0.6% month-on-month against an expected -0.3%. The Federal Reserve is now in blackout almost untilt the end of the month, so there are no speakers this week.
- The UK lifted all remaining Covid-19 restrictions on Monday 19 July, even with the Delta variant running rife, and new cases exceeding 44,000 a day – although they seem to be levelling out as the end of the week approaches. The ONS said that more than 90% of UK adults now have Covid-19 antibodies.
- Also in the UK, retail sales rose 0.5% in June, which was higher than expected. In Europe, consumer confidence fell to -4.4 in July, well below the expectation of a rise.
- In Singapore, Covid-19 cases hit an 11-month high, with the infections thought to stem from karaoke lounges.

Markets

- In government bonds the US 10-year started the week, 19 July, strongly at 1.19%, -10 from Friday 16 July. They consolidated mid-week, fell sharply on Wednesday 21 July (1.29%, +10) and edged higher on Thursday 22 (1.28%, -1). Both Germany and the UK followed the same pattern.
- In credit markets, based on BofA Merrill Lynch Bond Indices, Global IG started the week (19 July) at 94bps and ended it (22 July) at 93bps. High Yield tightened over the week from 377bps (19 July) to 368bps (22 July).
- Oil started the week (19 July) at $66.5 a barrel, down from $71.2 on Friday 16. It spent the week recouping this, ending Thursday 22 at $71.7.
- Coffee rallied to a 10-year high on Thursday 22 July.
- In FX, the US dollar was pretty much unmoved versus the euro over the week at 1.177.

Note: all data as at 22 July 2021, unless otherwise specified. Source: Bloomberg.