

A Month in the Markets



JUNE 2021

In this latest edition our Head of Multi-Asset Solutions UK, Stefano Amato, looks at how key themes impacted markets in May: the accelerated vaccination rollout, concern over rising inflation and a surge of infection rates in Latin America and Asia.

Market Overview

Global stock markets delivered, on average, modest positive returns in May even though the vaccination rollout accelerated and companies reported generally strong profits. The month began on positive footing as vaccination rates and successful social distancing measures in developed economies helped to reduce infections and enabled economies to re-open. However, investors seemed to be preoccupied with the prospect of rising inflation as economic activity ramps up, causing markets to dip early in the month. Elsewhere, the situation was different. India continued to face a difficult situation, while COVID-19 infection rates began to surge in Latin America and Asia.

Against a backdrop of caution, caused by inflation and the pandemic, global stock markets finished the month in neutral territory. Developed markets such as Europe and Japan led the way, albeit with low single-digit returns, while Asia Pacific, China and the US delivered flat returns for the month.

Europe and the UK

There was general improvement in both the UK and Europe in May as the number of people vaccinated increased and infection rates fell. In the UK, the retail sector was in good health. Data from the Confederation of British Industry showed the volume of sales in May stood at normal



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seasonal levels. This followed a busy April when retail sales increased sharply due to pent-up consumer demand and the opening of non-essential shops. It was a similar story for the economy as a whole throughout the month, as business activity increased at a fast pace across the board. This was largely attributed to the government's gradual re-opening of the economy.

Europe showed improvement too, as infection rates were falling over the month and vaccination programmes stepped up a gear after a slow start. While the European Union still lags behind the US and UK, nearly 40% of the population received at least one dose by the end of the month. Similar to the UK, business activity accelerated in May as restrictions were lifted and economies began to open up. The manufacturing sector remained strong and the services sector - which includes travel and leisure businesses - expanded at a rate not seen since June 2018.

US

Rising inflation has been a talking point in the US throughout the first half of 2021, and May was no different. Numbers released by the US Department of Commerce at the end of May showed that consumer prices had surged in the previous month, causing inflation to rise. The root cause of this was not only pent-up demand as consumers returned to shopping centres, but also because of supply constraints caused by the pandemic.

In general, the US economy has shown significant improvement. The corporate sector is on solid footing with companies having reported generally strong earnings in the first three months of the year. Despite supply chain constraints, a significant proportion has beaten the market's expectations. As business activity picked up, the weekly number of people claiming unemployment benefits fell to just over 400,000 in May, down from more than 700,000 per week in recent months.

Asia and Emerging Markets

Slower growth in China's manufacturing sector in May - due to higher costs for materials - raised concerns that the country's recovery from COVID-19 is not yet fully secure. While the economy has largely shaken off the worst effects

from the pandemic, it continued to face hurdles due to the impact of the pandemic on its overseas trading partners. Even though the recovery in the US and Europe will lead to higher demand for Chinese exports, the broader Asia region is China's largest trading partner. Rising infection rates, combined with more expensive raw materials and higher shipping costs, are likely to be negative overall for China's economy.

In Japan, which is scheduled to host the delayed 2020 Olympic Games this summer, there were concerns that the economy may fall into another recession as COVID-19 restrictions bite. The government has sought to control the virus with a series of containment measures. This caused businesses to cut back investments and shoppers to cut back on spending. However, it was offset somewhat by strong exports and industrial production thanks to the global recovery.

Outlook

Once again, the prospects for stock markets and the global economy in the months ahead is largely dependent on what happens next with the pandemic. The progress being made in developed economies as far as vaccinations go appears positive. However, there continues to be concerns that developing economies are being left behind. For stock markets, it appears they have reached a crossroads of sorts. Despite companies reporting strong earnings, there was little upward momentum in May. It is likely that we will need to see widespread vaccinations around the world and continued re-opening of economies before markets will progress once again.

Setbacks are still possible, particularly as infection rates remain stubbornly high in some parts of the world and new variants of the virus emerge. With that in mind, we are aware of the risks associated with another major wave of infections or change in direction from central banks. So far, central banks have been doing everything it takes to support economies through the crisis. As always, we will continue to monitor ongoing developments and adjust our asset allocation to suit economic and market conditions.



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