

Monthly Market Summary



July 2021



Summary: Equity markets continued to rise as bond yields fell

Global equities ended the month +0.7% (in USD terms), despite a sharp selloff in Asian markets. Government bonds also rose +1.4% (in USD, unhedged). Key events included:

- Bond yields continued to fall despite inflation moving higher.
- US equities led global stock markets higher, on strong quarterly earnings.
- Central banks' rhetoric remains the same, for now.

The Delta variant remained in focus as infection rates rose in the US and parts of Asia, where restrictions have been reintroduced. Global markets however continued their upward trajectory, with US equities hitting new highs, supported by strong second-quarter results and positive revisions to forward earnings. Chinese equities suffered a broad-based sell off at month-end as Beijing imposed fresh restrictions on the private education sector. Bond yields continued to fall, despite inflation beating expectations, driven by real yields. Elsewhere, Bitcoin whipsawed during the month, ending up 20.1%. Of the precious metals, gold was up 2.5%, whilst silver fell 2.4%.

US: Inflation rose to a 13-yr high, Biden's infrastructure plan progressed

The US economy posted 6.5% annualised growth in the second quarter and would have been significantly stronger if not for further destocking and bottlenecks. Preliminary business surveys remained firmly expansionary in July. Meanwhile, those supply bottlenecks, reflecting the uneven reopening of the economy, pushed inflation up for the third consecutive month in June, to a 13-year high (+5.4% YoY, from 5% in May). Bonds effectively continued to look through the current inflation spike, seeing it as largely transitory: yields fell, and the yield curve flattened further. Bonds were helped by the Fed staying firmly accommodative, leaving rates unchanged and continuing its bond buying programme at the same pace. The Fed discussed possible future tapering, but details about when and how much have clearly not yet been decided. On the fiscal front, Biden received bipartisan approval on \$500bn of his infrastructure package, as final negotiations continue in Congress. Meanwhile, US-China trade talks ended in stalemate.

Europe: Eurozone business activity surges, ECB revises inflation target

July saw the full lifting of Covid-19 restrictions across the UK, while contagion rates appear to have rolled over. The UK is on track to report a strong rebound in second quarter growth, and the IMF has revised up their full-year growth estimates to 7%. Eurozone business activity rebounded at its strongest pace in 15 years, driven by unleashed pent up demand and the easing of restrictions. On policy, the ECB kept rates on hold, but nudged its inflation target upwards, to a symmetric 2%. The BoE left rates unchanged. On Brexit the UK called for a renegotiation of the Northern Ireland protocol to allow for the freer movement of goods across borders.

ROW: Contagion rises, global demand remains strong, China crackdown

Australia reimposed a four-week lockdown as cases of the Delta variant rose, whilst a slower vaccine rollout led to a record number of reported infections across South Korea and Thailand. For now, at least, there seems to be little impact on growth: South Korean exports – a widely used barometer of world trade – rose by one-third in the first three weeks of July. Chinese factory gate inflation slowed following last month's government intervention to steady prices of raw materials. Meanwhile regulatory risks continued to weigh on Chinese equities as Beijing officials imposed fresh restrictions on burgeoning industries. In an effort to contain the economic fallout PBOC injected short term cash into the market.

Performance figures (as of 31/07/2021 in local currency)

Fixed Income	Yield	1M %	YTD %
US 10 Yr	1.22%	2.0%	-1.4%
UK 10 Yr	0.57%	1.2%	-2.6%
Swiss 10 Yr	-0.37%	1.2%	-0.7%
German 10 Yr	-0.46%	1.9%	-0.4%
Global IG (hdg \$)	1.46%	1.3%	0.4%
Global HY (hdg \$)	4.40%	0.1%	2.8%

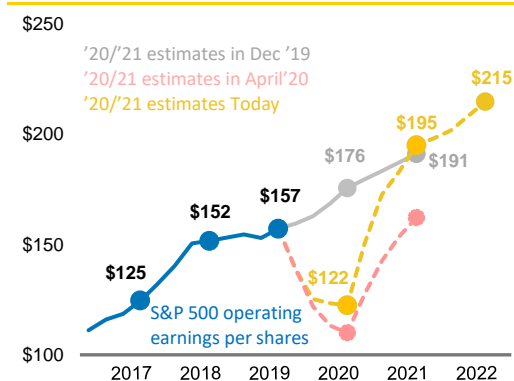
Equity Index	Level	1M %	YTD %
MSCI World (\$)	371	0.7%	13.1%
S&P 500	4,395	2.4%	18.0%
MSCI UK	12,040	0.3%	11.6%
SMI	12,117	1.5%	16.3%
Eurostoxx 50	4,089	0.8%	17.5%
DAX	15,544	0.1%	13.3%
CAC	6,613	1.6%	21.5%
Hang Seng	25,961	-9.6%	-2.9%
MSCI EM (\$)	625	-6.7%	0.2%

Currencies (trade-weighted, nominal)		1M %	YTD %
US Dollar		0.9%	4.2%
Euro		0.2%	-1.5%
Yen		1.3%	-5.9%
Pound Sterling		0.7%	4.4%
Swiss Franc		1.9%	-1.9%
Chinese Yuan		-0.6%	0.5%

Commodities	Level	1M %	YTD %
Gold (\$/oz)	1,814	2.5%	-4.4%
Brent (\$/bl)	76	1.6%	47.4%
Copper (\$/t)	9,701	3.7%	25.2%

Source: Bloomberg, Rothschild & Co

S&P 500 earnings estimates revised higher



Source: SPG Global, Rothschild & Co, correct to 30 July 2021



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