

# Monthly Market Summary



August 2021



## Summary: New highs for equities while bond yields increased

Global equities rose further in August, by +2.5% (in USD terms). Global investment grade bonds fell slightly by 0.3% (in USD). Key events included:

- Strong equity returns driven by robust Q2 earnings and continued monetary support
- Rising COVID-19 cases and Chinese Government crackdown on tech & eCommerce
- Fed indications that it will not taper before employment objectives are reached.

Despite several headwinds, global stocks reached new highs in August, driven by US and tech stocks. Equity markets benefited from a stronger-than-expected Q2 earnings season with corporate outlooks strengthening. During the month rising COVID-19 delta variant cases and weakening PMI data temporarily weighed on investor sentiment. Additionally, the sell-off at Chinese stock markets continued. Bond yields increased moderately, but fluctuated driven by higher inflation rates, decreasing inflation expectations and tapering concerns. Gold slumped and then rallied, while Brent crude oil fell 4.4%.

### US: Record corporate profits, weaker macro data, Fed remains dovish

Q2 US corporate profits are set to have jumped >9% QoQ to a record high (Source: US Bureau of Economic Analysis) and 2021's S&P estimates exceed pre-pandemic expectations. Several economic indicators, however, signal some moderation in growth as COVID-19 infections rise and a high inflation rate (5.4% YoY for July and June) weighed on consumer sentiment. Retail sales in July fell by 1.1% MoM. US PMI business surveys deteriorated in August but remained clearly in expansionary territory (Manufacturing PMI 61.1 from 63.4; Services PMI 55.2 from 59.9; Composite PMI 55.4 from 59.9). Meanwhile, the recovery of the US labour market continued with the unemployment rate falling to 5.4%. At Jackson Hole, Fed Chair Powell warned about the risks of premature tightening and pointed out that further progress is still needed to reach the Fed's employment objective. Negotiations at the House of Representatives continue around a USD 3.5tr budget framework and a USD 1tr Senate-passed infrastructure bill. The rushed withdrawal of US personnel from Afghanistan may have geopolitical and humanitarian consequences but had little market impact.

### Europe: Peak in economic indicators, rising inflation, ECB remains supportive

Despite rising COVID-19 infections in many countries, the Eurozone recovery remained on track. The Eurozone's PMI business surveys fell slightly in August but remained at high levels, signalling strong growth (Manufacturing PMI 61.4 from 62.8; Services PMI 59.7 from 59.8; Composite PMI 59.5 from 60.2). Consumer confidence and Industrial confidence sentiment indicators took a similar trajectory. The Eurozone inflation rate increased to 2.3% YoY in July with further upside potential as the preliminary German inflation rate for August climbed to 3.9% YoY. The ECB remains very supportive with its monetary policy, worried that the recovery is still fragile. That said, this fall, the ECB will review its PEPP programme which remains in place till March 2022.

### ROW: Contagion rises, weakening growth, sell-off in China

Australia and New Zealand extended their lockdowns. Contracting retail sales in July may signal a decline in Australia's GDP in Q3. In Japan the Manufacturing PMI for August still implies growth, but the Services PMI fell into contraction territory. Chinese equities suffered a prolonged sell-off before a recovery began at the end of the month. Investors were unsettled by the Government's crackdown on the Tech, eCommerce and education sectors, possible restrictions on US listings as well as IPOs, and talk of wealth redistribution, as well as by slower growth in retail sales and industrial production.

Performance figures (as of 31/08/2021 in local currency)

Fixed Income	Yield	1M %	YTD %
US 10 Yr	1.31%	-0.4%	-1.8%
UK 10 Yr	0.71%	-0.4%	-3.0%
Swiss 10 Yr	-0.32%	-0.4%	-1.0%
German 10 Yr	-0.39%	-0.6%	-1.0%
Global IG (hdg \$)	1.51%	-0.3%	0.1%
Global HY (hdg \$)	4.34%	0.8%	3.6%

Equity Index	Level	1M %	YTD %
MSCI World (\$)	380	2.5%	15.9%
S&P 500	4,523	3.0%	21.6%
MSCI UK	12,266	1.9%	13.7%
SMI	12,411	2.4%	19.1%
Eurostoxx 50	4,196	2.6%	20.6%
DAX	15,835	1.9%	15.4%
CAC	6,680	1.0%	22.7%
Hang Seng	25,879	-0.1%	-2.9%
MSCI EM (\$)	642	2.6%	2.8%

Currencies (trade-weighted, nominal)			
US Dollar		0.5%	3.9%
Euro		-0.2%	-2.3%
Yen		-0.5%	-6.9%
Pound Sterling		-0.7%	3.5%
Swiss Franc		-0.9%	-2.9%
Chinese Yuan		-0.5%	1.3%
Commodities	Level	1M %	YTD %
Gold (\$/oz)	1,814	-0.0%	-4.5%
Brent (\$/bl)	72.99	-4.4%	40.9%
Copper (\$/t)	9,528	-1.8%	23.0%

Source: Bloomberg, Rothschild & Co

### Purchasing Managers' Index (PMI) Heatmap

	2020					2021							
	8	9	10	11	12	1	2	3	4	5	6	7	8
<b>MANUFACTURING</b>													
US	53	53	53	57	57	59	59	59	61	62	62	63	61
UK	55	54	54	56	58	54	55	59	61	66	64	60	60
Eurozone	52	54	55	54	55	55	58	63	63	63	63	63	62
China	53	53	54	55	53	52	51	51	52	52	51	50	50
Japan	47	48	49	49	50	50	51	53	54	53	52	53	52
<b>SERVICES</b>													
US	55	55	57	58	55	58	60	60	65	70	65	60	55
UK	59	56	51	48	49	40	50	56	61	63	62	60	56
Eurozone	51	48	47	42	46	45	46	50	51	55	58	60	60
China	54	55	57	58	56	52	52	54	56	55	50	55	48
Japan	45	47	48	48	48	46	46	48	50	47	48	47	44

Source: Bloomberg, Rothschild & Co, 08/2020 - 08/2021



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