

Monthly Market Summary

October 2021



Summary: Sentiment recovers as stocks pare losses

Equities reversed September losses and ended the month near record highs (+5.1% in USD terms), whilst global government bonds declined -0.3% (in USD, unhedged). Key events included:

- US stocks touch new highs, whilst bond yields continue to register more inflation risk
- Slowing growth, but demand and activity indicators remain robust
- Inflationary pressures persist as supply constraints broaden

Global infection rates remain subdued - UK notwithstanding - with restrictions easing further. US equities touched new highs in the month, with sector leadership taking its cue from higher bond yields - cyclical sectors such as energy and financials outperformed. A strong start to third quarter earnings season saw profits growing well ahead of consensus in both the US and Europe. In commodities, oil (Brent \$84/bl) edged up to its highest level since 2014, while European and US natural gas prices (-34% and -8%, respectively) showed signs of cooling. Elsewhere the first Bitcoin ETF was launched pushing the cryptocurrency briefly to record highs (\$67k). Meanwhile, the dollar retreated, and sterling outperformed.

US: Growth slows; inflation risk elevated; debt ceiling delayed

US growth slowed in the third quarter (+0.5% q/q), though output remains 1.4% higher than before the pandemic. The labour market tightened further with unemployment falling to 4.8% and the timelier business surveys revealing that activity momentum continued into October. Inflation moved higher (headline CPI: 5.4% y/y), with more pervasive pricing pressures building. Elsewhere, domestic frictions rose as increased militancy grew among unions calling for higher wages. In congress, lawmakers approved a temporary rise in the debt ceiling to December. Biden's economic agenda continued to divide opinion – the social spending plan continues to shrink (now \$1.75 to \$2trn) as Democrats attempt to satisfy key moderates across both sides of the aisle.

Europe: Eurozone growth catching up; ECB on hold; BoE rate rise imminent,

Eurozone growth outpaced the US and China in the third quarter, expanding 2.2%. On policy, the ECB kept its deposit rate unchanged at -0.5% and confirmed it would continue bond purchases for the \$1.85trn PEPP programme at a 'moderately lower pace'. Elsewhere, policy negotiations have begun for Germany's new traffic light coalition involving SPD's, Greens and the liberal FDPs. In the UK, infection rates have risen once again, though another lockdown seems unlikely at this stage. Inflation remained elevated in September (+3.1% YoY), prompting hawkish comments by the governor on higher inflation ahead, whilst firmly hinting at an initial hike in the base rate next month. On fiscal matters, the UK Chancellor reaffirmed his position for policy normalisation in his 2021 budget.

ROW: China growth slows; Japan election; EM policy tightening

China's economy expanded at meagre 0.2% in the third quarter as earlier outbreaks of the virus led to renewed restrictions on activity – notably industrial output. Default risk in the indebted property sector remained in focus, with Chinese house prices falling for the first time since 2015. Meanwhile, South Korean exports were up for a 12th consecutive month in October (+27 y/y %). Japan's general election saw the LPD maintaining their seat in the lower house. In Turkey, the lira fell to new lows after PM Erdogan further undermined monetary credibility and cut policy rates despite higher inflation. Elsewhere, policy tightening gathers pace: New Zealand has now joined several developing economies, including Brazil and Russia, in hiking interest rates this year.

Performance figures (as of 29/10/2021 in local currency)

Fixed Income	Yield	1 M %	YTD %
US 10 Yr	1.56%	-0.4%	-3.8%
UK 10 Yr	1.03%	-0.3%	-5.6%
Swiss 10 Yr	-0.03%	-1.2%	-3.7%
German 10 Yr	-0.11%	-1.0%	-3.5%
Global IG (hdg \$)	1.79%	-0.1%	-0.9%
Global HY (hdg \$)	4.86%	-0.5%	2.3%

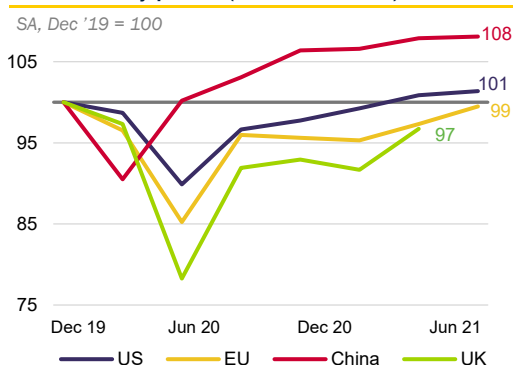
Equity Index	Level	1 M %	YTD %
MSCI World (\$)	383	5.1%	16.8%
S&P 500	4,605	7.0%	24.0%
MSCI UK	12,550	2.3%	16.4%
SMI	12,108	4.0%	16.4%
Eurostoxx 50	4,251	5.2%	22.6%
DAX	15,689	2.8%	14.4%
CAC	6,830	4.8%	25.8%
Hang Seng	25,377	3.3%	-4.5%
MSCI EM (\$)	622	1.0%	-0.3%

Currencies (trade-weighted, nominal)			
US Dollar		-0.6%	2.2%
Euro		-0.0%	-2.8%
Yen		-2.3%	-8.0%
Pound Sterling		2.4%	5.4%
Swiss Franc		2.2%	0.1%
Chinese Yuan		1.0%	6.7%

Commodities	Level	1 M %	YTD %
Gold (\$/oz)	1,783	1.5%	-6.1%
Brent (\$/bl)	84.38	7.5%	62.9%
Copper (\$/t)	9,809	9.7%	26.6%

Source: Bloomberg, Rothschild & Co

GDP recovery profile (real GDP indexed)



Source: Bloomberg, Rothschild & Co



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