

Weekly Investment Update

15th October 2021



News Headlines

US inflation data – Food and gasoline were the main contributors in US consumer inflation last month, pushing the price index to its highest annual increase in 13 years, while the core rate remained steady. CPI rose by 0.4% in September, above analysts' estimates of 0.3%. Over the last year, prices have climbed 5.4%, just ahead of the forecast of 5.3%, which was the largest 12-month increase since July 2008. Investment bankers, unlike Federal Reserve officials, do not think that the high levels of inflation are transitory, as the CEOs of Blackrock, Morgan Stanley, JP Morgan expressed their concerns this week, suggesting that the Fed should be ready to raise interest rates soon.

IMF economic outlook – In its latest "World Economic Outlook", the International Monetary Fund marked down its global growth forecast for 2021, suggesting growth will peak at 5.9% for the year, down from a prediction of 6% made in July. Coronavirus outbreaks, poor vaccine access and weak government policy support all contributed to the downgrade. The IMF did however keep their forecast growth rate of 4.9% for 2022.

German coalition – Three parties have reached a preliminary deal to form the next German government. The Social Democrats (SDP), the ecologist Greens and liberal FDP have held talks since the centre-left SPD won the election over Angela Merkel's conservatives on the 26th September. The coalition has found favour with Germans, with 62% approving the three as the next federal government. While the SPD and the Greens are natural partners, the biggest challenge was getting the FDP on board. The market-oriented party campaigned for fiscal prudence and clashed with the SPD and Green over plans to open Germany's reserves to upgrade infrastructure, protect the environment and expand digital technologies. Only after an agreement is approved would the parties call for a vote in German parliament.

Market Summary

Global Equities – Global equities put in a strong performance this week after a broad-based rally on Thursday. The gains had a number of key catalysts. A confirmation that President Biden had signed the US debt-ceiling limit increase, China confirming that it would loosen restrictions on home loans amidst the concerns over the Evergrande crisis, a slew of decent corporate earnings, positive US jobless claims data, and a further fall in Covid cases for the 8th consecutive week all added to the positive sentiment. The US S&P 500 experienced its best day since March, coming back within 2.2% of its all-time high. The optimism in the US spread globally, with Asian and European stocks also seeing healthy gains.

Commodities – Inflation concerns saw Bloomberg's Commodity Spot Index advance to another record high, exceeding the earlier peak from last week. Brent Crude rose past \$85 a barrel for the first time since 2018, the latest milestone in a global energy crunch that has seen prices surge recently. The shortage of gas and coal has triggered extra demand for oil products from the power market, with stockpiles starting to deplete. Natural gas prices rose for 3 consecutive days, while coal prices surged in China, pushing above 30% for the week.

Gold prices finally showed strength, with the yellow metal making solid gains on Wednesday after the latest US CPI data suggested that current inflation levels may not be transitory. After nudging the \$1,800 per ounce mark, the end of the week saw a slight reversal of those midweek gains, as US Treasury bond yields rose sharply.

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Chart of the Week

Commodity Prices at Record Bloomberg Commodity Spot Index tops 2011 peak to reach new high



Source: Bloomberg – Commodity prices hit record highs as inflation persists

Key Economic Releases Next Week

| Monday | Tuesday | Wednesday | Thursday | Friday |
|-------------|---------|----------------------------|----------|-----------------------------|
| - China GDP | | - UK CPI - EU Inflation | | - Japan CPI - France GDP |

Market Performance – 15/10/2021

| Global Market Indices | 2021 YTD %* |
|-----------------------|-------------------|
| FTSE 100 | 13.06% |
| S&P 500 | 21.28% |
| DAX | 12.65% |
| Nikkei 225 | 6.21% |
| Hang Seng | -4.64% |
| Fixed Income | Yield % |
| UK 10 Yr Gilt | 1.06% |
| US 10 Yr Treasury | 1.54% |
| Commodities | 2021 YTD % |
| Gold | -5.98% |
| Currency | |
| GBP/USD | 1.37 (15/10/2021) |
| GBP/EUR | 1.18 (15/10/2021) |

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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