INFORMATION FOR INVESTMENT PROFESSIONALS

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Market updates

Investment team updates | 22 October 2021

Fixed income

News

- Covid-19-related restrictions are starting to reappear: Morocco is halting flights with the UK, Germany and Netherlands due to rising case numbers; Latvia is shutting down parts of its economy – bars and shops are closing, curfews are being reintroduced, and there has been a resumption in student distance learning; and Singapore is extending its lockdown for another month. In the UK ministers are being urged to act sooner rather than later as case numbers continue to climb, exceeding 50,000 daily on 21 October, but the business secretary has said there won't be fresh lockdowns. In China, the lack of new variants of the virus has been somewhat promising, but the country is dealing with a cluster of new cases in its north-western provinces.
- In the US, industrial production for September fell 1.3%, against an expected 0.1% of growth, partly due to the effects of hurricane Ida, which contributed around 0.6% of the overall drop. This is on top of ongoing supply-chain shortages. August's figure was also revised down 0.5% and now shows a contraction of -0.1%.
- US initial jobless claims for the week ending 16 October came in below expectations: 290,000 versus 297,000 expected. This is back to pre-pandemic levels
- The US Federal Reserve's Beige Book, a summary of commentary on current economic conditions, contains talk around tapering starting sooner rather than later: the US economy is expanding at moderate rate with comments on inflation driven by supply shortages, transportation bottlenecks and labour constraints. Fed chair Jerome Powell is set to take part in a policy panel discussion on 22 October.
- In Germany, Bundesbank president Jens Weidmann announced he is stepping down after more than 10 years in the position. As one of the strongest hawks at the European Central Bank (ECB), he cited personal reasons for the decision and will leave at the end of the year.
- In the UK, inflation eased slightly in September, in spite of sharply higher petrol prices and supply shortages, rising 3.1% after a 3.2% gain in August. Markets are now pricing in an interest rate rise of up to around 0.45% by the December meeting, up from 0.1%, and up to around 0.95% by the 22 June 2022 meeting.
- Hungary raised its benchmark interest rate by 15bps to 1.8%.
- In China, Moody's have downgraded a number of companies in the Chinese property sector. Evergrande Group have narrowly avoided default as they paid the outstanding $83.5 million coupon payment just a few days before its 30-day grace period was due to end.
- Flash PMI data is due today (22 October). Japan's figure is already out, and is an improvement on its September figure, 50.7 vs 47.8. This is the first 50-plus reading for Japan since January 2020. Australia is also reading above 50 – 52.2 versus 46 in September – its first 50-plus reading since June of this year.

Markets

- In government bonds the US 10-year treasury yield ended the week (22 October) just below 1.7%, but still remains at a six-month high. In Germany, France and Italy respectively 10-year bunds (+2.4bps), OATs (+2.1bps) and BTPs (+2.7bps) are all moving higher too. In the UK the 10-year breakeven rate is at a 25-year high.
- Credit markets, based on BofA Merrill Lynch Bond Indices, were broadly unchanged across the week, with Global IG at 91bps, and Global high yield at 376bps.
- Bitcoin rose 3.31% at the start of the week (18 October), taking it back up to near its all-time high. The rally was on the back of a US bitcoin ETF that launched on 19 October. Elsewhere in FX it was a pretty quiet week with some general US$ weakness.
- Oil hit a three-year high in excess of $86 a barrel on 21 October, driven by ongoing supply constraints and the global energy situation, although prices subsequently eased off.
- In FX the US dollar edged lower by 0.2% on 21 October and is on track for a second week of decline.

European equities

- The fuel crisis appears to have eased, but plenty of challenges remain – not least ongoing geopolitical tensions with Russia and China, and spikes in the Delta variant of the coronavirus.
- Politics in Europe is also a theme. A left-leaning coalition government in Germany seems likely, while in France, President Macron leads in the polls for next year's French election, but the right-wing candidates – through divided – are also strong. Poland, meanwhile, is in the throes of a major spat with the EU over the adoption of parts of EU law.
- Supply-chain issues and energy are pressurising inflation, and this continues to take its toll on the market. The value rally has returned, but the market continues to be rotational with no signs of a single style gaining sway.

Responsible investment

- The International Energy Agency (IEA) published its 2021 World Energy Outlook earlier this month, highlighting that today's climate pledges fall far short of the emissions reductions required to put the world on a path towards net zero by 2050. The report suggests a number of ways to get the world on track to net zero, including:
    - Significantly higher carbon prices
    - An acceleration of the phase-out of coal
    - An acceleration in clean energy investments to around $4 trillion annually by 2030
- Meanwhile, the first half of the COP15 meeting on Biodiversity concluded, with a declaration on the importance of reversing biodiversity loss by 2030. Negotiations to establish a global framework of biodiversity targets continue, and could include a focus on reducing pesticides, fertilisers and plastics. A proposed goal to protect 30% of the global land and sea area by 2030, if achieved, would roughly double the area of land and sea with protected status. Such a framework would present both opportunities and risks for sectors such as food and beverage, agriculture (in, for example, new technologies) and miners. Banks and investors are also likely to face more scrutiny on financing activities that harm biodiversity.
- In company news, major brands are continuing to pilot product takeback and resale schemes, which are a growing focus for consumers. Adidas is the latest to do so, with the launch of its scheme enabling consumers to return used items in exchange for points redeemable on Adidas merchandise.

Note: all data as at 21 October 2021, unless otherwise specified. Source: Bloomberg.