INVESTMENT REVIEW – November 2021

The month of October saw equity markets mostly make gains as corporate earnings offset concerns over higher energy prices and the rate of inflation.

The economic picture remains a little complex. There has been encouraging data on company profits, in the US in particular, and in the UK there has been a decent recovery in dividend payments, which in the second quarter were up by half on the previous year. While the vaccination roll-out remains unequal it has gained momentum with indications of the efficacy of booster jabs, and countries such as Australia, Singapore and Thailand have re-opened their borders. The threat from new variants remains and in Russia the government closed workplaces for a week, in part as only 32% of the population has had a double dose.

The economic pressure from the disruption to the supply chain should ease, although the pressure on the automotive industry (Tesla aside, it seems) has persisted. The shortage of semiconductor chips and its impact on exports of cars or parts was one factor in the US trade deficit rising to a record $73bn in August. Energy prices moved higher after OPEC and its associates said it would only allow gradual increases in output, while a suggestion from Russia that it would supply additional gas to Europe helped only briefly. The shortage of coal in Asia has created challenges in China and in India.

There has been a marked slow-down in the rate of economic growth in China, in part structural and also cyclical. Industrial production grew at a reported 3.1% in September and the overall economy by 4.9% in the third quarter. Evergrande, the highly-indebted property developer, failed to sell its property services division, although concerns over contagion in financial markets have eased. Prices for new properties in larger cities fell in September for the first time since April 2015.

Inflation has been high, if not at the sustained rate in the 1970s. In the US the Consumer Prices Index rose by 5.4% year-on-year in September and in Germany the inflation rate rose to 4.1%, the highest level since 1992. While the rate in the UK dipped that month to 3.1%, in part as the Help Out to Eat Out scheme had been a factor in September 2020, it is expected to rise to 4%: the reduced rate of 5% VAT on hospitality has ended, the energy price cap is 12% higher and there has been a squeeze on many other prices. There is likely to be a rise in wages as in the US, where the average hourly amount paid in the private sector was 4.6% higher in September - although unlike in 1970, when about 38% of workers in OECD countries were covered by union wage bargains, by 2019 only a fifth were.

Central banks have moved to counter the inflationary pressures, while still being patient on the basis that they are temporary. The US Federal Reserve moved closer to tapering its $120bn of monthly asset purchases and the Bank of England is expected to agree a rise in its interest rate from 0.1% to 0.25% by March next year, and perhaps in November. The more gradual approach at the European Central Bank may benefit from Jens Weidmann's announcement that he is stepping down as president of the Bundesbank in Germany, a role he has held since 2011 since when he has been a hawkish member of the ECB's governing council and a critic of quantitative easing.

In Japan the Liberal Democratic Party of the new prime minister Fumio Kishida won as expected the elections held on 31st October with a focus now on the push for economic growth with broader benefits. After the inconclusive elections in Germany negotiations have started on a 'traffic light' government with the red of the SPD, the yellow of the centrist FDP and the Greens, although as with roadworks they may take some time. The high level of sorties by Chinese aircraft prompted Taiwan's defence minister to say that tension between the states was at its worst for forty years. The Biden administration has scaled back its ambitious spending on welfare and climate plans, closer to $1.5tn, and it is still looking to agree the necessary tax rises to pay the costs.

The COP26 summit in Glasgow might be a conference of the parties but is not as yet a confluence of minds. Much may depend on technology, from carbon capture or hydrogen fuel, for example, as well as on investment in new infrastructure. In medicine the technological advances remain impressive, as the World Health Organisation endorsed use of the first vaccine against malaria for children at risk.

The FTSE 100 index rose by 2.1% over the month to close at a level of 7238, while the FTSE 250 index of mid-sized companies only made 0.3%, the FTSE SmallCap index fell by 0.5% and the FTSE AIM All-Share was 1.7% lower. The total return for the FTSE All-Share including income was at 1.8% for the month.

In the US, the S&P 500 index jumped by 6.9% in the month, the Dow Jones Industrials index by 5.8% and the technology-oriented NASDAQ index by 7.3%. As in the UK smaller companies lagged, with the Russell 2000 index up by 4.2%.

In Europe the FTSE Eurofirst 300 gained 4.6% over the month, with the French and Italian markets doing better than the German, while the Euromoney index of smaller companies was up by 2.7%. In Japan markets bucked the trend as in the previous month, when they had risen: the Nikkei 225 index was down by 1.9% in the month and the TOPIX by 1.4%.

The MSCI Emerging Markets index in US$ terms managed a modest gain of 0.9% over the month. The indices in India and Russia saw a small rise although those in Brazil and Korea were down. The Hang Seng index in Hong Kong finally rallied, up by 3.3% in the month. The MSCI Frontier Markets index was 4% higher, with the Vietnamese market up 7.6%.

In bond markets, the UK 10-year gilt yield was stable at 1.03% as against 1.02% at the start of the month and the total return for the FTSE Gilts All Stocks index was 2.2%, with index-linked stocks doing well. In Germany the 10-year bund yield moved from -0.2%to -0.11% while the yield on ten-year US Treasuries rose from 1.49% to 1.55%. There were negative returns in US Treasuries, high yield debt and emerging market bonds.

Sterling rose by 1.5% against the US$ over the month to close at a rate of $1.37:£, while against the euro Sterling was up by 1.7% at a rate of €1.17:£. The price of gold gained 1.5% over the month to close at $1783 per troy ounce. The price of Brent oil rose by 6.6% to end the month at $84 per barrel, nearly two-thirds higher than at the start of the year.

The prices of most metals were higher, with copper up by 6.8%, although aluminium saw a reverse to previous gains. The prices of agricultural commodities were mixed, if still higher over the year to date. The Vix index of expected volatility in the US market fell by 30%.

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