INFORMATION FOR INVESTMENT PROFESSIONALS

Market updates

Investment team updates | 20 August 2021

US equities

- Having traded close to all-time highs last week (ending 13 August), US equities fell back this week due to a mix of geopolitical concern regarding the situation in Afghanistan and a slightly more hawkish commentary from the US Federal Reserve's July meeting, suggesting that quantitative easing could be tapered sooner than thought.
- Overall, the S&P 500 declined modestly by 0.6% for the two weeks as a whole (ending 19 August). The Nasdaq 100 fared slightly worse, falling by 1.1%, while the small cap Russell 2000 sold off the most, down by 5.1%. Growth slightly outperformed value, though the difference was negligible.
- There remains a wide disparity of views on the Fed as to when the $120 billion a month asset purchase programme should start to be unwound, with some members favouring this year while others are looking out to next year. At the meeting, members discussed the timing and the mechanics of a taper as a consensus grows around winding down the programme given that many Fed officials believe it has met its goals of an average 2% inflation target and a labour market showing signs of being close to full employment. The publication of the minutes seemed to weigh on risk sentiment and equities sold off in response. Treasuries remain in demand, with the yield on the 10-year sliding back below 1.25% yesterday (19 August) having stretched as high as 1.35% last week.
- With just a small number of names in energy and retail left to report, Q2 earnings are mostly complete. The picture has again been one of very strong recovery, especially those cyclical sectors which suffered the most last year. The year-on-year earnings growth of 89% is slightly flattered by an easier comparison with a year ago, but the strength of the rebound in economic activity has also played an important role in the high earnings growth rate. 87% of companies have also beaten earnings expectations, which is significantly higher than the long-run average. Anecdotally, a number of companies have also reported supply bottlenecks and cost pressures, which will likely persist into the back half of the year. On the materials and industrials side, some companies have been more adept at managing cost pressures than others – usually through hedging – and that is where we have seen divergence between companies within sectors.
- This week, home improvement company Home Depot reported earnings. Although it beat expectations, the stock sold off on weaker gross margins due to the downturn in timber prices and soft comparisons in its US stores as consumers turned from home improvement to using goods and services outside the home. Despite the pullback, the stock is still up by 23% year-to-date, handily ahead of the S&P 500.
- In small caps, apparel retailer Canada Goose sold off following its own earnings report. Despite sales increasing by more than 100%, a lacklustre outlook led to a pullback in price. It has greatly increased the amount of goods sold through its direct-to-consumer channel, with the company hoping this will account for 70% of sales by year-end. It has also made strides from a RI perspective, increasingly replacing natural furs in its coats with synthetic ones, which mimic the look and quality.

Fixed income

News

- In the US, retail sales were weaker than expected, falling 1.1% month-on-month when a rise had been expected. Conversely, industrial production was better, rising 0.9% month-on-month.
- Also in the US the National Association of Home Builders survey for August was the weakest since last year, falling five points to 75.
- In the UK, the unemployment rate fell to 4.7%.in June, compared to 4.8% in May. This was better than expected. Meanwhile, the growth in average earnings rose to 8.8% in June from 7.4% in May, also above expectations.
- In China, there was weaker economic data, with retail sales, industrial production, fixed asset investment and unemployment all weaker than expected.
- In Japan, however, there was better Q2 GDP, up 1.3% quarter-on-quarter when 0.5% was expected.
- In Afghanistan the Taliban took control of the country.

Markets

- In core government bonds, US 10-year ended last week (13 August) at 1.26%. They opened this week (16 August) by slipping lower to 1.23% on little news, before ending the week (19 August) at 1.24%. The UK moved from 0.57% (13 August) to 0.53% (19 August), while Germany went from -0.48% to -0.49%.
- In credit markets, based on BofA Merrill Lynch Bond Indices, Global IG started the week at 93bps (16 August) and ended it slightly wider at 95bps (19 August). Global High Yield, meanwhile, started the week at 377bps and widened over the week to 382bps.
- Oil bobbed around the $66-$67 mark all week.

European equities

- Market volumes remain low owing to the summer period.
- Fears of slowing growth and potentially higher inflation and interest rates have seen markets slow. Against this backdrop, more growth-oriented counters have been favoured.
- The Chinese regulatory clampdown on multiple corporate sectors has hit the IT sector and some luxury stocks.
- Afghanistan is a focus of media attention, but despite the long-term implications there is little evident market impact.

Note: all data as at 19 August 2021, unless otherwise specified. Source: Bloomberg.