

Alan Boswell Financial Planners

Market Update - July 2021

The world's daily COVID-19 infection rate climbed to an all-time high at the end of April, while the daily number of virus-related deaths reported globally remained significantly below its early-year peak. Vaccination rates have slowed in developed regions, leaving more shots available to the rest of the world. The daily average number of deaths in the UK attributed to COVID-19 remained in the low double digits despite a resurgence in new infections in mid-May, 20,000 cases per day as the quarter ended.

Developed-market equities outpaced emerging markets for the second quarter. US shares gained the most among major markets, followed by Europe, the UK, Hong Kong and mainland China. Japanese equities were modestly negative.

UK gilt and US Treasury rates declined across most maturities for the first two months of the second quarter; short-term rates bounced in June to finish higher for the second quarter as intermediate-to-long-term rates continued to drop—resulting in flatter yield curves. Conversely, eurozone government-bond rates climbed throughout April and May before falling in June, but generally ended up higher compared to the beginning of the quarter. Emerging-market debt was the best-performing fixed-interest asset class. US corporate bonds followed—with investment grade outpacing high yield, and inflation-protected securities also performed notably well.

For the first time since April this year, the seven-day average of new COVID-19 cases reported in the US stopped falling in mid-June after a period of declines that brought cases to their lowest levels since March 2020. The world's daily infection rate climbed to an all-time high at the end of April as India continued to battle a severe COVID-19 outbreak. While the daily number of virus-related deaths reported globally also increased during the second quarter, it remained significantly below its early-year peak.

Eurozone manufacturing measured its fourth straight month of record-high growth in June, with Spain and Greece reaching their greatest levels in more than 20 years, accelerating to the fastest rate of growth in more than three years by June. The eurozone unemployment rate declined steadily, from 8.1% at the end of the first quarter to 7.9% in May. The overall eurozone economy shrank by 0.3% during the first quarter and 1.3% year over year in March.

The Bank of England's (BOE) Monetary Policy Committee (MPC) kept the bank rate at 0.1% and retained an £895 billion maximum allowance for asset purchases throughout the second quarter. It shared a projection that inflation would temporarily top 3% before returning toward 2%. The European Central Bank (ECB) began the second quarter with a pledge to increase the pace of asset purchases under its €1.85 trillion Pandemic Emergency Purchase Programme (PEPP). Purchases averaged about €80 billion per month during the second quarter after running closer to a monthly pace of €60 billion during the first quarter.

The US FOMC held the federal-funds rate near zero throughout the second quarter and continued its asset purchases apace. Its latest Summary of Economic Projections (SEP), released in mid-June, featured a projected increase in the federal-funds rate to 0.6% in 2023. The SEP also depicted significantly higher GDP and inflation projections for 2021.

The Bank of Japan (BOJ) announced that the central bank's emergency pandemic-related programmes would extend past their scheduled September 2021 end date. A new programme targeted at promoting lending to counteract climate change was also announced. Final plans for the programme by the end of 2021 will likely be based on offering banks attractive loan terms when their lending supports mitigate the effects of climate change.

The success of the US vaccination effort and the country's state-by-state response have resulted in a significantly stronger economy this year than in other major developed countries. Fortunately, vaccination rates are accelerating in Europe and Japan. We anticipate that other advanced economies will record strong economic results in the second half of the year and into 2022, exceeding the pace in the US.

Please note the following:

All investments involve different degrees of risk. Please remember that past performance is not a guide to future performance. The value of units and shares and the income from them can go down as well as up and investors might not get back the amount originally invested. Exchange rates may cause the value of overseas investments to rise or fall.

Where we have expressed views and opinions, these may change over time. None of the information mentioned in this document represents a specific portfolio or holding nor constitutes a recommendation to buy or sell.

Alan Boswell Financial Planners

Prospect House, Rouen Road,
Norwich, NR1 1RE

T 01603 967967