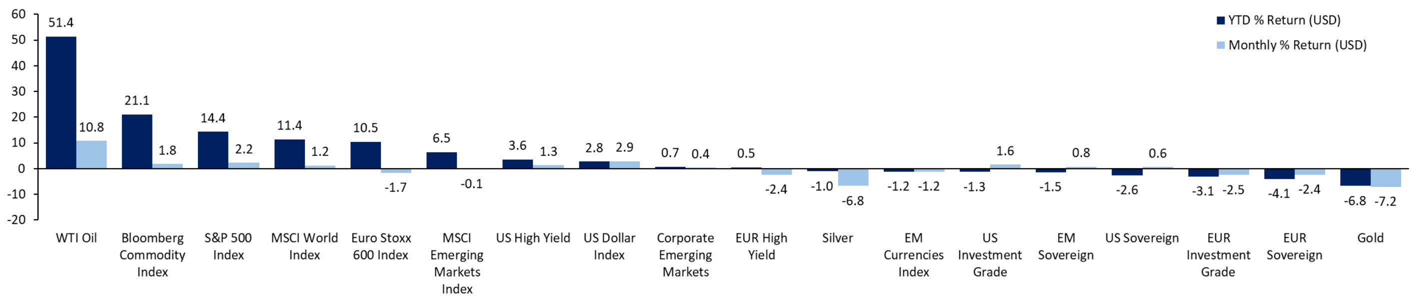
July 1, 2021

Monthly Market Wrap, June 2021

The June FOMC meeting was the main event of the show this month with the central bank posting a surprisingly more dovish dot plot and shifting its communication closer towards a potential tapering of asset purchases in the coming months. While the tapering was expected to occur at some point, the meeting pulled the timeline forward, which echoed through the markets in the last two weeks of June. The dollar caught a bid as the yield curve flattened.

Chart 1. Asset Class Return YTD (USD Base)



Equities

Global equities were up 1.5% this month, up 13.1% YTD. With the change in tone at the Fed supporting a flattening of the yield curve, value equities underperformed growth equities **(Chart 2)** since growth stocks are - by definition - longer duration assets and more sensitive to longer rates.

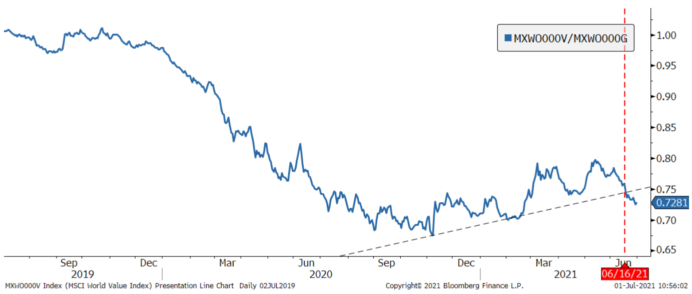
US equities closed one of the best first halves since 1998 with the S&P 500 up 2.3% last month, up 15.3% YTD **(Chart 2)**, and the Nasdaq up 6.4%, erasing some of the early underperformance, up 13.3% YTD. Solid economic data tempered concerns over elevated valuations and the spread of a more contagious variant, helped by a higher vaccinations in the county and other developed markets. The S&P 500 notched its longest streak of quarterly gains since 2017, now standing at five continuous quarters.

In Europe, the Stoxx 600 closed its longest monthly gains streak since 2013, ending the month up by 1.5% and bringing its year-to-date performance to 16.2% **(Chart 4)**.

On a sector basis, tech performed relatively well in both regions with the sector up 6.9% in the US and 4.0% in Europe. We will also highlight the good performance of energy in the US, up 4.5% last month and up 45.4% YTD. We also note that the European healthcare sector was the best performing sector in the region last month, up 6.7%.

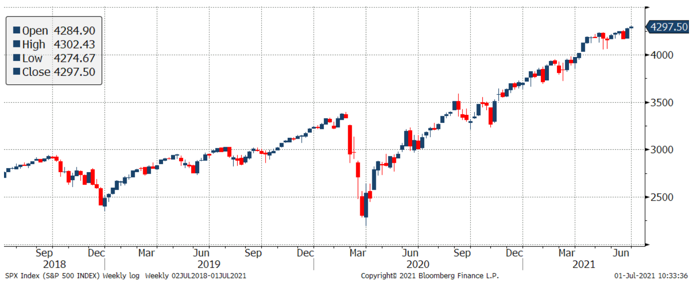
Volatility continued to dampen as equity markets edged higher with the VIX index falling to 15.7 at the end of June.

Chart 2. Global Value vs. Growth Equities



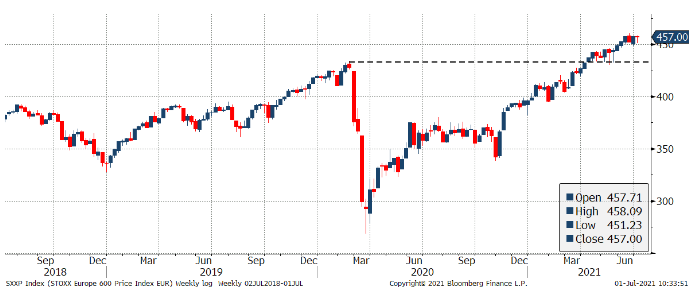
Source. Bloomberg, MAM Research

Chart 3. S&P 500 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Fixed Income

Markets interpreted the June FOMC meeting in a hawkish light. Both the 2-year and 5-year bond yields jumped 10 basis points following the meeting. In contrast, long-term bond yields declined after the meeting, with the 10-year **(Chart 5)** and 30-year bond yields falling by 6 and 19 basis points, respectively. The market likely overreacted to the changes in the Fed's projection (e.g., "the dots"). As Chair Powell noted during the press conference, the dot plot is "not a great forecaster of future rate moves", and added "Lift-off [in rates] is well into the future". The market is currently pricing in 105 basis points of tightening by the end of 2023. Before the meeting, it was expecting 85 basis points in rate hikes.

While inflation expectations have risen, they should fall in the second half of the year as transient factors descend from their seasonal highs, but should pick-up again when stickier and slower to adjust drivers of inflation emerge. Market expectations of inflation have already dipped back in the lower end of the Fed's comfort zone, that is within 2.3-2.5% on 5-Year/5-Year forward breakeven **(Chart 6)**.

Currencies

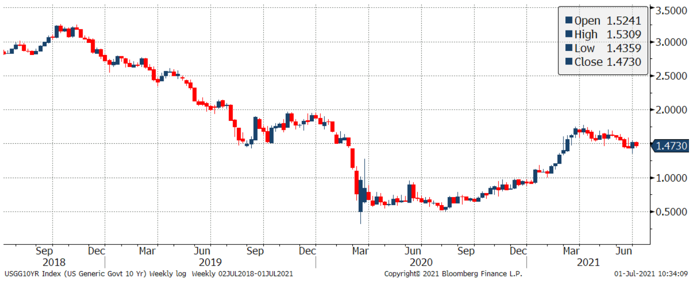
The US dollar strengthened a bit last month, partially as a function of the change in tone at the Fed. Indeed, the greenback is quite sensitive to changes in short-term rate expectations and strengthened by nearly 2.0% on the news. In June, the US dollar **(Chart 7)** gained against the basket of other currencies by 2.9% - erasing YTD loses.

With the European region lagging in the reopening phase, and the interest rate and growth differential shifting in favour of the US in the near-term, the Euro **(Chart 8)** lost some of its value, giving all of its YTD gains, against the dollar. The Euro was down 3.0% in June, and -2.9% YTD. We see the downtrend continuing with a 2-3 month view, but eventually expect the dollar weakening to resume, offering a buying opportunity in the 1.15-1.16 range.

A similar story depicted across the north sea with the British Pound closing the month down 2.7%, but still somewhat positive on a YTD-basis, up 0.8% **(Chart 9)** .

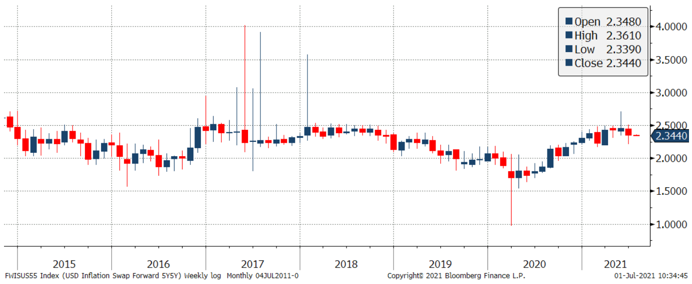
Elsewhere, we will note a good performance for the more commodity driven currencies. In that aspect, the NOK was up 3.3% and CAD was up 2.8%.

Chart 5. US 10-Yr Treasury Bonds (Weekly)



Source. Bloomberg, MAM Research

Chart 6. US 5Yr5Yr Forward Breakeven Rate (Monthly)



Source. Bloomberg, MAM Research

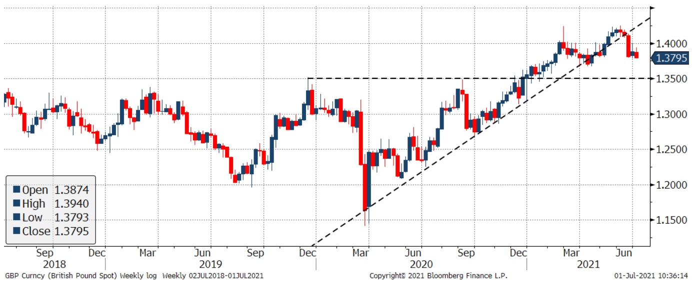
Chart 7. US Dollar Index (Weekly)

Source. Bloomberg, MAM Research

Chart 8. USD/Euro Spot Exchange Rate (Weekly)

Source. Bloomberg, MAM Research

Chart 9. USD/GBP Spot Exchange Rate (Weekly)



Source. Bloomberg, MAM Research

Commodities

Despite a stronger dollar, commodities have been able to catch a bid with the broad commodity index **(Chart 10)** expanding its gains to 22.4% YTD, up 1.9% in June.

At a sector level, the sole positive contributor to the performance of the asset class on a sector level was energy, up 11.4%, driven for the most by higher natural gas price, up 22.2%, with a seasonally hotter than normal summer and WTI Crude Oil, up 10.8%, with a strong end-demand recovery amid a tighter supply environment.

Precious metals were once more the worst performing commodities with higher real rates and a stronger dollar being the key drivers here. Gold **(Chart 11)** was down 7.2% while Silver **(Chart 12)** ended down 6.8%.

Elsewhere, industrial metals were down 3.2% driven for the most part by copper, down 8.2%, which was in much need of a correction considering how extended the rally in the metal had been so far this year. In agriculture, it was lean hogs that was a key negative driver, down 8.3%, with a recovering Chinese herd and lower demand putting pressure on local prices. With the weather likely to reduce crop yields globally, corn was able to catch a bid, up 9.6%.

Carbon futures continue to perform well, up 9.1% in June, thus further extending its lead as the best performing commodity this year, up 76.7%.

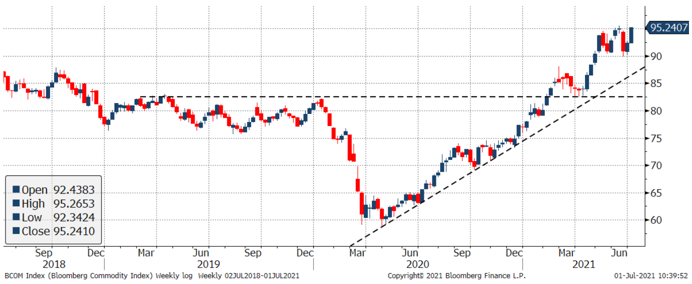
Emerging Markets

Emerging market equities were relatively unchanged last month with the index **(Chart 13)** up 17 basis points. On a regional basis some of the top contributors to the index's performance such as China (35.5% weight) were flat.

Some countries in the Asia Pacific region failed to perform last month such as Pakistan equities, down 9.3%, and Indonesian equities, down 4.6%. In LATAM things were a little bit more muted with Mexican equities down 1.8% while Brazilian equities were able to rebound, up 5.3%.

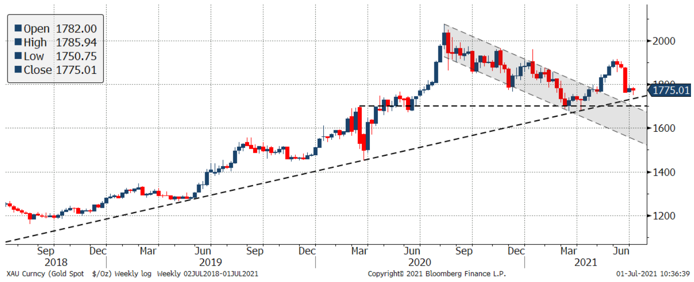
On the FX front, emerging market currencies were down by 1.2% in aggregate last month **(Chart 14)**. While the Brazilian Real was able to perform relatively well, up 4.8%, supported in part by rate hikes expectations, other such as the South African Rand struggled, down 4.0%, driven by rotation flows out of southeast Asian assets and fears over the spread of new variants amid lower vaccinations.

Chart 10. Broad Commodity Index (Weekly)



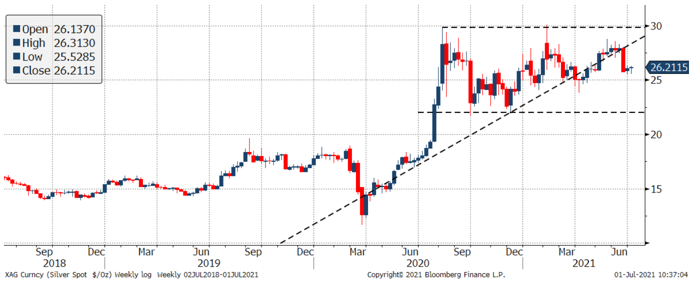
Source. Bloomberg, MAM Research

Chart 11. Gold Spot Prices (Weekly)



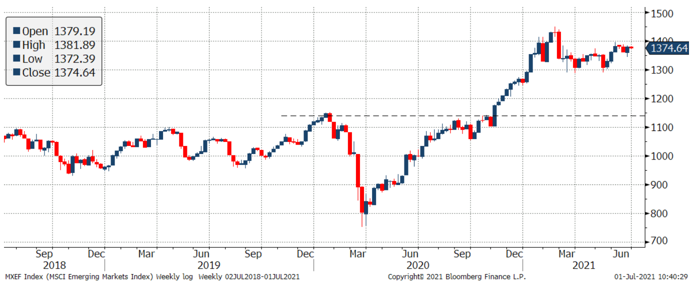
Source. Bloomberg, MAM Research

Chart 12. Silver Spot Prices (Weekly)



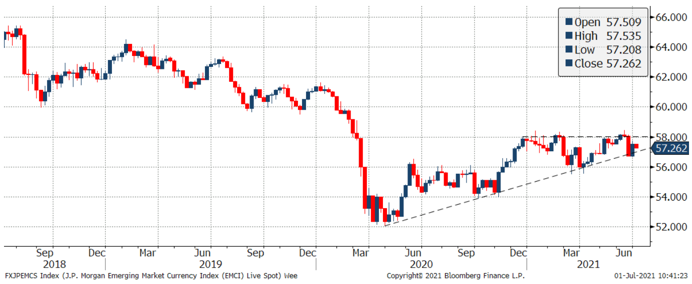
Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)



Source. Bloomberg, MAM Research

Chart 14. JPM EM FX Index (Weekly)



Source. Bloomberg, MAM Research