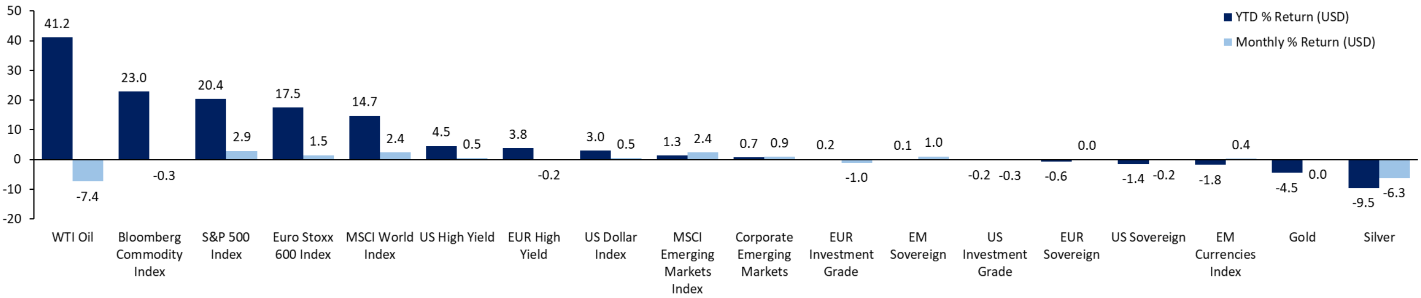
September 2, 2021

Monthly Market Wrap, August 2021

The global reopening continued last month with a number of developed markets further lifting restrictions. Economic data has been strong, though much of the developed world now appears to be at or just past peak rate of growth. The Delta variant continued to spread and daily cases have picked up across the globe. However, vaccinations programmes meant hospitalizations have not rising anywhere near as fast as in past waves. Data out of the UK and Israel suggests antibody protection from vaccines wears off after six months, although protection against severe forms of the disease and crucially hospitalization remains high. In response, a number of countries announced booster programmes to deliver third doses to their populations. As it stands, the Covid-19 impact is likely to be more evident in ongoing supply chain disruptions rather than a return of economic shutdowns, notably in developed countries.

Chart 1. Asset Class Return YTD (USD Base)



Equities

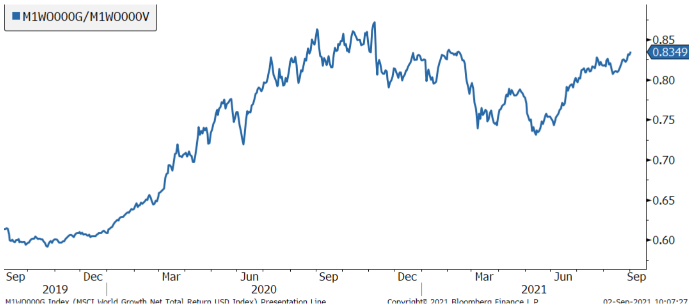
Global equities posted total returns of 2.5% this August. Growth equities benefitted form persistently low US rates to post total returns of 3.3%, thus outperforming value **(Chart 2)**, up 1.6%.

August economic data pointed to an economy that, while past the peak rate of growth, is still running hot and concerns over inflationary pressures continued to build. Undern the surface, core CPI fell marginally as pressure from transitory factors ease. On the other hand, the labour market continues to strengthen. The July job report added 943,000 jobs and saw wages up 0.4% month-over-month. While headline inflation eases on the fading impact of transitory factors, underlying longer-term pressures continue to build. Chair Powell's Jackson Hall speech was well received by the markets. The Fed is satisfied with the progress made on inflation - still sees it as transitory - and expects labour markets to reach the bar for tapering shortly, markets expect by year-end. Powell also emphasized the timeline for tapering is separate to that of the rate hike. All eyes now on the September meeting for updates on tapering and the latest rates forecast. The S&P 500 returned 3.0% **(Chart 3)** while the Nasdaq was up 4.3%, each recording their best August month since 2000.

In Europe, things were relatively more quite with the parliament in recess and no announcements from the ECB. Economic data was still strong and year on year CPI estimated to rise to 3.0%. The EuroStoxx 600 returned 2.2% **(Chart 4)**.

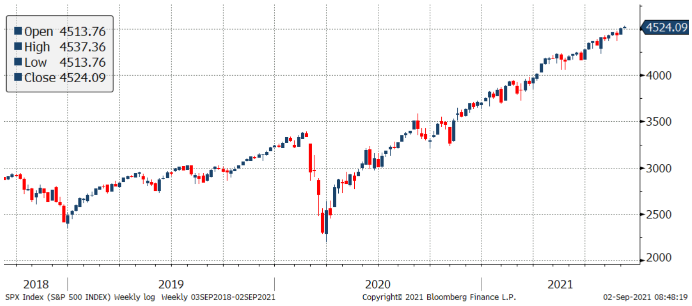
Interestingly, financials (up 5%) were the best performing sector in the US meanwhile tech (up 6.2%) led the gains in Europe.

Chart 2. MSCI World Growth vs. Value (Daily)



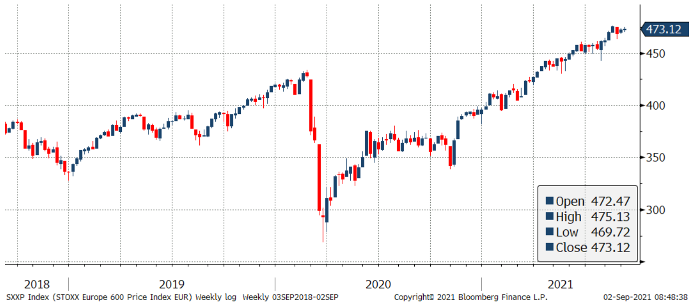
Source. Bloomberg, MAM Research

Chart 3. S&P 500 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Fixed Income

Fed Chair Powell triggered a risk-on market move following his Jackson Hole speech last week, but it could potentially not be sustained this fall. Investors particularly liked the new forward guidance on rates, thereby delinking hikes from the end of QE. Not surprisingly, markets reacted well to the announcement. Risk assets climbed higher, the dollar weakened, treasury yields dropped **(Chart 5)**, and credit spreads tightened **(Chart 6)**.

However, a key assumption of the Fed's new forward guidance on rates is that the current high inflation is temporary and will decline towards the target in the medium term. We have been more concerned about inflation. Both persistent and transitory inflation factors are historically high in the US.

Arguably, some inflation is not necessarily bad for markets as it will help reduce the currently high debt levels. However, higher-than-expected inflation could challenge the Fed's new forward guidance on rates, complicate policy normalization, and reduce its so-called policy put. The risk-reward in credit markets is very poor at the moment. Both the asymmetry in credit spreads and fundamentals favour a bearish view on the asset class.

Elsewhere in Europe, yields followed a somewhat diverging path with the German Bund bouncing back from the lows of –50bps to –38bps by month-end.

Currencies

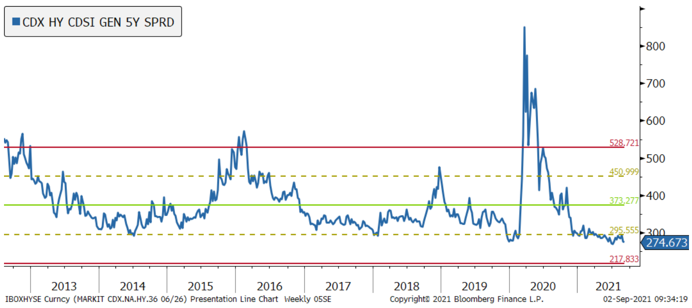
The dollar **(Chart 7)** was on an uptrend in early August before giving back its earlier gains, only closing up 0.5%. The greenback weakening post-Jackson Hole highlights two factors. (1) The taper talk did not produce major surprises to the market. This is supported by the decline in treasury yields and higher equities. The market has pricing in expectations of reduction in Fed asset purchases by the year-end. (2) Sentiment around the dollar is already bullish, thus suggesting the rally could soon lose some steam. Gains seen earlier this year were driven by low and rising net speculative positioning **(Chart 8)**, a historically favourable dynamic. Yet, this is no longer the case. Speculator are net long dollar. Although sentiment did not reached stretched levels yet, leaving room for further appreciation in the near-to-medium term, the elevated positioning supports a bearish dollar thesis in the longer-term.

With no major developments on the other side of the Atlantic, the Euro **(Chart 9)** mostly reflected mirror changes to that of the dollar over the past month with the European union's currency down 0.5%. Moving forward, the currency will remain stuck in a monetary policy tug of war. The cross-Atlantic policy divergence should the ECB remain accommodative will continue to weigh on the exchange rate and widen yield spreads between the two regions.

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

Source. Bloomberg, MAM Research

Chart 6. US HY Credit Spreads (Monthly)



Source. Bloomberg, MAM Research

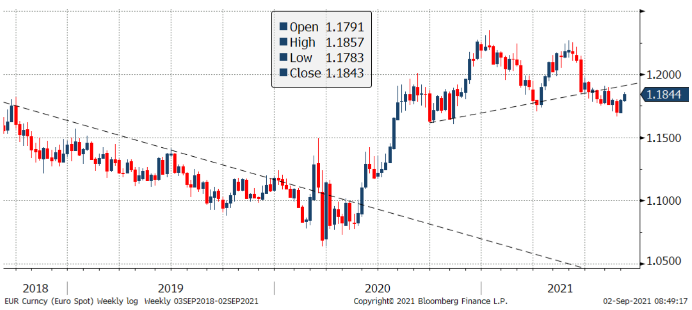
Chart 7. US Dollar Index (Weekly)

Source. Bloomberg, MAM Research

Chart 8. US Dollar Net Speculative Positioning

Source. BCA Research

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



Source. Bloomberg, MAM Research

Commodities

As a function of a slightly stronger dollar, the broad commodity index pointed slightly lower in August, down 0.3%. However, underneath the surface, we observed some strong performance divergence across sectors.

Precious metals continued to be the worst performing sector, down 1.4%. Silver **(Chart 11)** drove the lion share of the decline with the metal down 6.3% meanwhile gold **(Chart 10)** was flat.

Industrial metals were the best performing sector last month, though nothing outstanding with the sector up a mere 0.4%. Copper continued to decline, down 2.7%, but was compensated by the strong performance of Aluminium, up 4.2%.

Agriculture commodities were flat overall last month. Sugar, coffee, and cotton were among the best performing underlying, up a respective 10.8%, 7.7%, and 4.5%. On the other hand, lean hogs, soybean oil, and soybean were the worst performers, respectively down 16.4%, 9.8%, and 8.2%.

Energy commodities were down 0.4% in aggregate. WTI Crude **(Chart 12)** and Brent led the declines, down respectively 7.4% and 4.4%. Natural gas topped the energy gains, up 11.8%.

Carbon emission futures continue to trade higher on tighter emissions regulations, up 14.0% last month.

Emerging Markets

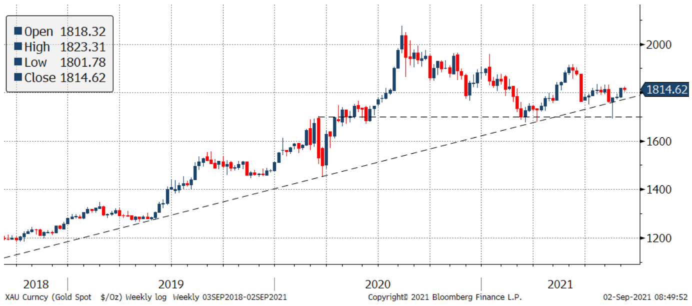
Emerging market equities were largely driven by China events. The ongoing regulatory changes in China continued through August with a widening number of industries and sectors now impacted. Emerging market equities initially declined by 4.5%, before rebounding towards the month end. Although headlines are likely to fuel some continued volatility, it is progressively being priced in. Emerging market equities **(Chart 13)** closed the month up 2.6%, with Chinese equities flat.

On a regional basis we will highlight the strong performance of Asian equities (ex-China) with Indian assets up 11.9%, Thailand up 11.5%, and the Philippines up 11.4%. Elsewhere, Mexico arguably benefited from a follow-through of positive economic data and forecasts in the US with equities up 5.6% locally.

On the credit front, emerging market credit toped the ranks as the best performing sector in August. Emerging market global credit posted total returns of 0.9% (in USD terms).

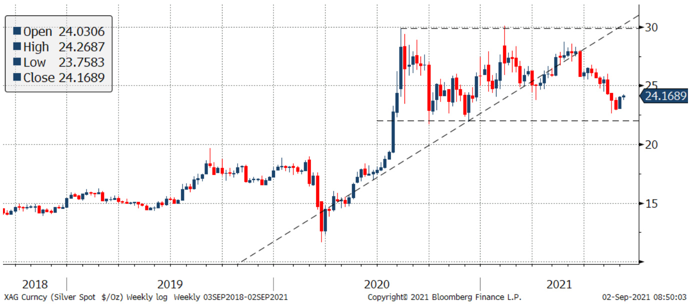
Despite a stronger dollar overall (DXY-basis), emerging market currencies **(Chart 14)** gained last month, up 0.4%. Gains were observable on the Indian Rupee (down 1.8%), the Brazilian Real (up 1.1%), the South African Rand (up 0.5%). Easing of variant scares and positive capital inflows in the regions contributed to the bounce back of local currencies.

Chart 10. Gold Spot Prices (Weekly)



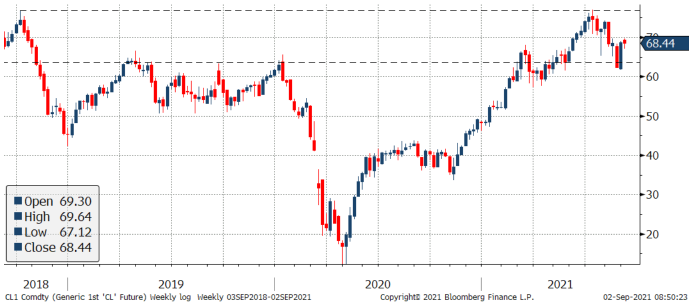
Source. Bloomberg, MAM Research

Chart 11. Silver Spot Prices (Weekly)



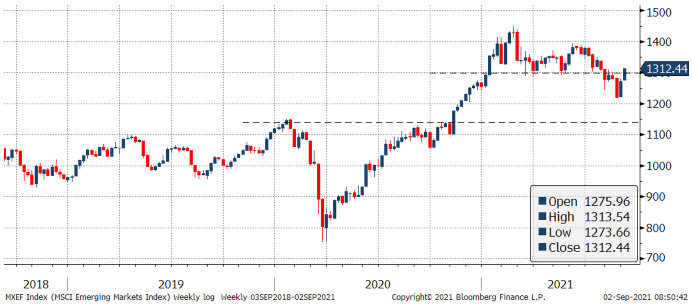
Source. Bloomberg, MAM Research

Chart 12. WTI Crude Oil Continuous Futures (Weekly)



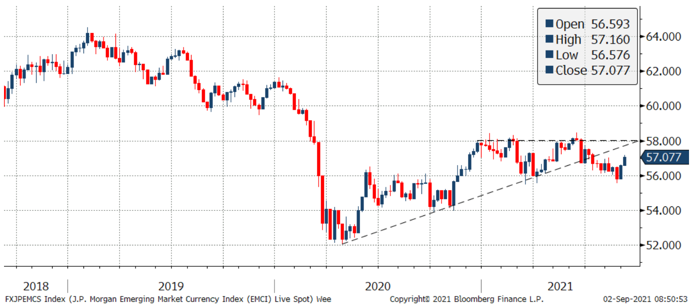
Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)



Source. Bloomberg, MAM Research

Chart 14. MSCI EM FX Index (Weekly)



Source. Bloomberg, MAM Research