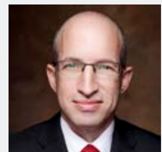
T. Rowe Price®
INVEST WITH CONFIDENCE

Weekly market recap

27 September 2021

Summary for the week ending on Friday 24 September



Yoram Lustig, CFA
Head of Multi Asset Solutions
EMEA and Latam

Michael Walsh, CFA, FIA
Solutions Strategist

Andrew Armstrong, CFA
Solutions Analyst

Niklas Jeschke, CFA
Solutions Analyst

Economic and political backdrop

The US

The decidedly downbeat start to last week appeared to be due to several factors. Primary among them, seemingly, were fears that a possible default by Evergrande, China's second-largest property developer – and the world's most heavily indebted one – might set off a global financial "contagion" similar to what followed the collapse of Lehman Brothers in September 2008. Stocks regained a large portion of their losses on Wednesday, however, attributed to news of a restructuring plan for Evergrande, along with a capital injection into the Chinese banking system.

The other closely watched event of last week was the Federal Reserve's two-day policy meeting that concluded Wednesday. As was widely expected, policymakers announced they would soon consider tapering the central bank's purchases of Treasuries and mortgage-backed securities, a move that would reduce some downward pressure on longer-term interest rates. In his post-meeting conference, Fed Chair Jerome Powell reiterated that he would be looking for continued improvement in the labour market before acting, although he did not need to see a "knockout" report for September.

The Fed also released its quarterly survey of individual policymakers' forecasts of future official short-term interest rates. The "dot plot" showed a small increase in their median rate expectations, which some investors interpreted as a modestly hawkish signal. According to the updated Summary of Economic Projections of the Federal Open Market Committee (FOMC), officials' projections for the timing of an interest rate lift-off are now evenly split between 2022 and 2023. Additionally, a majority of officials now anticipate at least three 0.25% rate hikes by the end of 2023.

The week's jobs data appeared to defy hopes for a resurgence in the labour market, with first-time jobless claims rising to 351,000, well above consensus forecasts and the highest number in a month. IHS Markit's Purchasing Managers' Index (PMI) survey of both manufacturing and services sector activity in September came in modestly below expectations but still indicated healthy expansion, especially in the former. Conversely, housing data mostly came in on the upside, with both housing starts and permits easily surpassing expectations. New home sales in August also hit their highest level (740,000) in four months, although they remained well below their peak a year earlier (977,000).

Europe

Norway became the first Group of Ten (G10) country to tighten its monetary policy, with the central bank raising its key short-term lending rate by 0.25% to 0.25% from 0.00%. Norges Bank Governor Oystein Olsen said there would probably be another rate increase in December.

Growth in eurozone economic activity slowed noticeably in September from July's 15-year high, while input prices jumped to a 21-year high. The early headline number for IHS Markit's composite PMI came in at 56.1 – down from the final readings of 59.0 in August and 60.2 in July (PMI readings greater than 50 indicate an expansion in economic activity levels). The pace of growth slowed further in both the manufacturing and services sectors. IHS Markit attributed the deceleration to demand peaking in the second quarter, supply chain bottlenecks and concerns about the spread of the coronavirus. All these factors appeared to erode business expectations.

Germany headed into a general election Sunday with the final opinion polls showing the Social Democrats (SPD) just clinging to their lead over the conservative Christian Democratic Union (CDU) and Christian Social Union (CSU). The Greens stayed ahead of the pro-business Free Democrats and the far-right Alternative for Germany (AfD).

The UK

The Bank of England (BoE) kept its key rate unchanged at 0.10%, although two policymakers voted for an early end to the quantitative easing programme. The accompanying statement also indicated that some developments, including upside risks to the inflation outlook, had strengthened the case for tightening. In a letter to the Chancellor of the Exchequer explaining why inflation was above the 2% target, Governor Andrew Bailey said the BoE now expected "inflation could remain above 4% into the second quarter of 2022." T. Rowe Price International Economist Tomasz Wieladek said some BoE policymakers could vote for a rate increase in November. He believes the whole Monetary Policy Committee could vote for one in February.

The PMI report for the UK painted a similar picture to that of the eurozone of slower economic activity and rising input prices. The flash composite index hit 54.1 in August – down from 54.8 in the preceding month – mainly due to a marked loss of momentum in the manufacturing sector, which offset an increase in services sector growth.

Japan

The latest Kyodo News poll shows that Vaccination Minister Taro Kono is viewed by the ruling Liberal Democratic Party (LDP) members as the favoured candidate to replace outgoing Prime Minister Yoshihide Suga as the party leader in the 29 September presidential election. The winner of the LDP election will become prime minister as the party holds a majority in both chambers of parliament. Campaigning for the LDP presidential election began on Friday, 17 September.

If Kono, who has a substantial lead, can secure better than 50% support from the LDP diet (382 members) and the rank-and-file members (also 382 votes), then no runoff election would be necessary. Kono is known for his reform-minded views. He has been outspoken in escalating Japan's coronavirus vaccination efforts and has advocated for drastic changes to Japan's pension system, which have been well received. His policies suggest that he would be supportive of additional stimulus measures and the central bank's current policy stance.

The Bank of Japan (BoJ) made no changes to its long- and short-term interest rate policy at the September policy meeting and confirmed its stance on maintaining asset purchases at current levels. Forward policy guidance allowed that the current policies would remain in force until the 2% inflation target was achieved. There were no major revisions to the board's economic assessment, which stated that "Japan's economy has picked up as a trend, although it has remained in a severe situation due to the impact of COVID-19 at home and abroad." The central bankers noted supply-side constraints on exports and production. While the BoJ views the pandemic's effects as transitory, it remains watchful of the impact on private sector growth expectations.

The Organisation for Economic Cooperation and Development (OECD) lowered its real (inflation-adjusted) GDP growth forecast for Asia in the September Interim Report from its May forecast. The reduction reflects rising inflation and supply chain disruptions. Japan's GDP forecast was trimmed to 2.5% in 2021 but revised up to 2.1% in 2022, the slowest growth rate among all major developed economies. The global GDP growth target was lowered to 5.7% in 2021.

China

A series of large cash injections by China's central bank during the week helped ease worries about a disorderly debt resolution for the indebted developer Evergrande. However, some of its offshore bondholders did not receive their portion of USD 83.5 million in interest payments by a Thursday deadline in US time, Reuters reported on Friday, citing unnamed sources. The company now enters a 30-day grace period, after which it will be considered in default if that period passes without payment.

Many analysts believe that China's government will step in to contain the financial fallout ensuing from an Evergrande bankruptcy or default. Moreover, many believe systemic risk is unlikely as Evergrande's outstanding debt amounts to a negligible amount of the country's total banking assets. Beijing is reportedly aiming for a "marketized default" for Evergrande, a term that some believe means an orderly market exit and well-managed restructuring. The company has many assets it can sell to reduce its debt, ranging from core property assets to an electric vehicle business and a property services unit. However, some analysts are concerned that the longer the government refrains from a public intervention, the more risk it poses to China's economy.

Australia

The minutes of the Reserve Bank of Australia (RBA) confirmed the willingness of policymakers to unwind the central bank's quantitative easing programme as soon as feasible. A tapering decision would be supported by economic data released last week. The September flash PMI came in stronger than expected and improved from the previous month. Household debt ratio is back to pre-pandemic levels thanks to a significant bounce in asset prices. This shows that the economy might be more resilient than anticipated despite the severe lockdowns.

Equity markets

Last week, MSCI All Country World Index (ACWI) was broadly flat, returning 0.1% (14.7% YTD).

In the US, the S&P 500 edged up 0.5% (19.9% YTD). The major benchmarks overcame an early sell-off to end the week flat to modestly higher. Last Monday, the S&P 500 recorded it biggest daily drop since 12 May, briefly dipping below its 100-day moving average, a closely watched technical level. Longer-term bond yields rose sharply over the week, helping financials shares by holding the promise of improving banks' lending margins. Energy stocks also outperformed within the S&P 500, while utilities shares lagged. Value outperformed growth, while small capitalisation stocks performed in line with the large ones. Russell 1000 Growth returned 0.3% (19.6% YTD), Russell 1000 Value 0.7% (18.6% YTD) and Russell 2000 0.5% (14.6% YTD).

In Europe, the Euro Stoxx 50 advanced 0.8% (19.6% YTD) as optimism about a continuing economic expansion offset concerns about a gradual withdrawal of central bank support. However, lingering worries about Evergrande curbed gains. Major indexes rose. Germany's DAX added 0.3% (13.2% YTD), France's CAC 40 was up 1.1% (22.1% YTD) and Italy's FTSE MIB gained 1.3% (19.5% YTD). Switzerland's SMI returned -0.9% (13.6% YTD). The euro was broadly unchanged against the US dollar, ending the week at 1.17 USD per EUR.

In the UK, the FTSE 100 climbed 1.3% (12.4% YTD) but the FTSE 250 lost 0.2% (17.0% YTD). The British pound was flat versus the US dollar, ending the week at 1.37 USD per GBP.

Japanese stocks posted losses in a volatile, holiday-shortened trading week. Japan's stock markets were closed on Monday for Respect for the Aged Day and on Thursday for Autumnal Equinox Day. The Nikkei 225 returned -0.8% (11.2% YTD), closing the week just off its 31-year high recorded earlier in the month. The broader TOPIX returned -0.4% (17.2% YTD) and the TOPIX Small Index -0.7% (19.2% YTD). The Japanese yen depreciated against the US dollar, finishing the week at 110.7 JPY per USD, compared with 109.9 at the end of the previous week. The yield of the 10-year Japanese government bond finished the week at 0.055%.

In Australia, the S&P ASX 200 returned -0.8% (16.2% YTD). The stock market was volatile, with an initial sell-off following concerns over the Chinese property sector. A gradual recovery followed on a broad-based relief that the Evergrande situation was not likely to be the "China's Lehman moment" as some feared initially. Still, the stock market was marginally down for the week. Iron ore prices rebounded though after a multi-week plunge. This benefited the Australian dollar, which was up for the week. Speculative positions in the Australian dollar have reached extreme short levels, risking a short squeeze in the near future should the domestic economy and commodity markets stabilise further. The Australian 10-year government bond yield rose for the week, following movements in global yields.

Emerging markets and other markets

MSCI Emerging Markets Index returned -1.0% last week (-0.2% YTD), dragged down mostly by China's CSI 300 Index and the stock markets of Taiwan and South Korea, while China's Shanghai Composite and the stock markets of India and Brazil contributed positively to performance.

Mainland Chinese stocks ended a holiday-shortened week broadly flat from the prior Friday's close after being closed Monday and Tuesday for the Mid-Autumn Festival. The CSI 300 Index of large-cap stocks returned -0.1% (-5.4% YTD), and the Shanghai Composite Index was flat (6.2% YTD). The market's subdued performance was noteworthy after Hong Kong's Hang Seng Index fell more than 3.0%

on Monday amid the mounting debt crisis surrounding China's Evergrande Group.

In the bond market, the yield on the 10-year Chinese government bond rose two basis points to 2.92% amid concerns over the potential costs to Beijing of an Evergrande rescue. Comments from the State Council, China's cabinet, seemed to suggest that the infrastructure spending could be accelerated in the near term to support economic growth. In currency trading, the renminbi was flat against the US dollar, trading at 6.463 per dollar late Friday afternoon in Shanghai.

In Russia, the Russian Trading System (RTS) Index returned 0.2% (30.5% YTD). Over the previous weekend, Russia held its regular parliamentary elections to the State Duma, the 450-seat lower house of the legislature. With virtually all of the votes counted, the results indicate that the United Russia party, which supports President Vladimir Putin, is the big winner and will retain its constitutional majority, though it did lose some seats. Candidates from four other political parties – the Communist Party of Russia, Liberal Party, Just Russia and New People – received at least 5% of the total ballots that were cast, so these parties will have smaller blocs of seats in the Duma.

According to T. Rowe Price sovereign analyst Peter Botoucharov, the most controversial part of the election involved several single mandate districts in Moscow, where the early vote count favouring alternative candidates was reversed to United Russia mainly due to delayed electronic voting. Botoucharov notes that there have been some minor postelection protests mainly coming from the left of the political spectrum. Nevertheless, as a result of the election, he believes that United Russia's constitutional majority will allow the government to implement the constitutional changes that citizens approved in a referendum last year.

Also, he believes that Russia's macroeconomic framework is likely to remain unchanged and that it will continue to be based on three primary pillars: a fiscal policy aimed at a stable tax system and a budget that is balanced or in surplus, an inflation-targeting monetary policy based on having positive real (inflation-adjusted) interest rates, and a managed process of deleveraging the sovereign and corporate sector that maintains the country's budget and current account surpluses.

In Turkey, the BIST-100 Index returned -2.4% (-3.1% YTD). Turkey's central bank reduced its one-week repo auction rate on Thursday from 19.0% to 18.0%. This surprised many investors, who expected no change in rates at this time. T. Rowe Price's Botoucharov believes the rate cut decision demonstrates the central bank's lack of a consistent policy framework. It also casts doubt on policymakers' stated commitment to keeping the key interest rate above inflation. The headline consumer price index is currently at a year-over-year rate of 19.25%. In addition, the rate cut decision is reflective of policymakers' preference for weakening the Turkish lira – in order to make Turkish exports more competitive on world markets – and prioritising economic growth.

While Turkey's current macroeconomic conditions are weak – which is not surprising in light of a 14-month tightening cycle that lifted interest rates more than 10% – Botoucharov believes that the current economic environment is more balanced compared with similar situations in the past. For example, the current account deficit is smaller, and the central bank's gross foreign exchange reserves have increased somewhat from 2017–2018 levels. In addition, credit growth has decelerated to a year-over-year rate of roughly 12% to 15% versus more than 50% in 2020.

Fixed income markets

Last week, Bloomberg Barclays (BB) Global Aggregate Index (hedged to USD) returned -0.3% (-1.1% YTD), BB Global High Yield Index (hedged to USD) -0.5% (3.3% YTD) and BB Emerging Markets Hard Currency Index -0.9% (-0.5% YTD).

The coming wind-down of the Fed's monthly asset purchases and mildly hawkish revisions to its interest rate forecasts helped push the US 10-year Treasury yield significantly higher later in the week. On Friday, the 10-year yield hit an intraday peak of around 1.47%, its highest level since the start of July, on the eve of the rebound in coronavirus cases. Several other factors were behind the rise as well, however, including the rebound in US equities, concerns surrounding inflation risks in the eurozone and profit-taking from investors who had bet on a flattening of the yield curve (a narrowing of the difference between short-term and long-term rates). For the week, the 10-year Treasury yield ended nine basis points higher at 1.45%, up from 1.36% (54 basis points higher YTD).

In Europe, government bond yields ended the week higher. German 10-year bund yield increased by five basis points to -0.23%, up from -0.28% (34 basis points higher YTD).

UK gilt yields followed the movement of global rates. Over the week, the 10-year gilt yield increased seven basis points, from 0.85% to 0.92% (73 basis points higher YTD).

US investment-grade corporate bond spreads opened the week wider amid subdued overnight demand from Asia. Later in the week, however, investment-grade corporates experienced strong demand as the Treasury sell-off intensified, and spreads tightened on above-average trading volumes. Meanwhile, high yield bonds traded lower as the week began amid concerns about China volatility, the possibility of Fed tapering, global growth expectations and headwinds for President Joe Biden's spending agenda. However, sentiment improved, and new issuance picked up as broader risk markets rallied following Fed commentary from the FOMC meeting.

Notes

All data and index returns cited herein are the property of their respective owners, and provided to T. Rowe Price under license via data sources including Bloomberg Finance L.P., FactSet & RIMES, MSCI, FTSE and S&P. All rights reserved. T. Rowe Price seeks to cite data from sources it deems to be accurate, but it cannot guarantee the accuracy of any data cited herein. Neither T. Rowe Price, nor any of its third party data vendors make any express or implied warranties or representations and shall have no liability whatsoever with respect to any data and index returns contained herein. The data and index returns cited herein may not be further redistributed or used as the basis for other indices, as a benchmark or as the basis for any other financial product.

Important Information

The specific securities identified and described are for informational purposes only and do not represent recommendations.

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance**. The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

DIFC – Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA ex-UK – Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

South Africa – T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

Switzerland – Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

UK – This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

© 2021 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.

202109-1851136

For more information on T. Rowe Price and our investment capabilities, please visit our website:

troweprice.com

T.RowePrice®
INVEST WITH CONFIDENCE