T.Rowe Price®
INVEST WITH CONFIDENCE

Weekly market recap

11 October 2021

Summary for the week ending on Friday 8 October


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

Last week started on a down note, attributed to several factors: Debt ceiling worries mounted as President Joe Biden said he could not guarantee that the US would not default; Facebook and a host of related Web services went offline; and a spike in oil prices was accompanied by comments from St. Louis Federal Reserve President Jim Bullard that he was "concerned that inflation risks are to the upside." Debt problems at another Chinese property developer also dampened sentiment, as did rising tensions between China and Taiwan, along with US attempts to force China to meet certain commitments under the Phase One trade deal. Tensions with China appeared to recede somewhat later in the week, however.

Worries over the debt ceiling were also alleviated late in the week, at least temporarily. Stocks rallied on Thursday, following reports that Senate Republicans had agreed to take up a bill to raise the Treasury's borrowing limit by USD 480 billion, which would allow the federal government to keep paying its bills through at least early December. Treasury Secretary Janet Yellen had warned that the government might not be able to meet its obligations around 18 October if action was not taken.

The week brought the highly anticipated monthly payrolls report, which seemed to receive a mixed reaction in markets when it was released Friday morning. The Labour Department reported that nonfarm payrolls grew by 194,000 in September, well below consensus expectations of around 500,000. The workforce participation rate also ticked lower, which some viewed as especially surprising given the expiration of extended unemployment benefits during the month. Previous months' gains were revised higher, however, and the scarcity of job seekers was reflected in another month of strong wage gains. Average hourly earnings rose 0.6% - more than forecast – and average weekly hours worked hit their highest level (34.8) since May. Weekly jobless claims, reported Thursday, also fell more than expected.

Europe

Wholesale natural gas prices surged to record levels in Europe amid global fuel shortages, threatening to increase costs significantly for households and to curb industrial production. Stronger global demand as economies reopened after the pandemic, lower Russian supplies to Europe, greater competition from Asia and Brazil for liquefied natural gas cargos, and depleted reserves after a cold winter and spring were among the many reasons cited for the shortage. Prices declined somewhat after Russian President Vladimir Putin hinted that Gazprom, Russia's state-backed gas company, might increase supplies of the thermal fuel to Europe.

European Central Bank (ECB) policymakers viewed the recent surge in inflation as temporary but acknowledged that the risks to the outlook "were widely regarded as being tilted to the upside," according to the minutes from its September meeting. Some policymakers were also worried by "upside risks" to inflation, the minutes indicated. They expressed doubt that the forecasting models were accurately capturing changes in the economy and argued that closer attention must be paid to a possible "regime shift" in prices.

In speeches during the week, ECB officials diverged over the official forecast, which sees inflation abating next year. ECB President Christine Lagarde reiterated that "we should not overreact to supply shortages or rising energy prices, as our monetary policy cannot directly affect those phenomena." At a conference organised by the Cleveland Federal Reserve and the ECB, Chief Economist Philip Lane and Executive Board Member Isabel Schnabel disagreed over the risks surrounding the forecast. Schnabel warned of "more persistent inflationary pressures," while Lane said there were forces that could drag down price growth. He said that recent higher energy costs were pushing up headline inflation, but together with the rolling back of fiscal support, they were also a headwind for economic growth.

Poland's central bank unexpectedly raised interest rates for the first time in almost a decade to quell a surge in inflation, boosting its key rate 40 basis points to 0.5%. The move follows hikes in the Czech Republic, Hungary and Romania.

German industrial production in August fell the most in 17 months due to supply chain disruptions, particularly in the auto industry.

The UK

The new Chief Economist of the Bank of England (BoE) Huw Pill raised concerns about high inflation potentially being more persistent than previously expected. He told the Commons Treasury select committee that the recent spike in prices would prove to be temporary but the "magnitude and duration of the transient inflation spike is proving greater than expected". The BoE has already had to raise its forecasts for inflation several times this year in the face of widespread supply chain problems and staff shortages, issues that are affecting economies across the world as they emerge from lockdowns.

Japan

Fumio Kishida, who won the race to lead Japan's ruling Liberal Democrat Party (LDP) following the resignation in September of predecessor Yoshihide Suga, was confirmed as the country's 100th prime minister. Upon his inauguration, Kishida announced that a general election would be held on 31 October; the LDP is not expected to lose its majority in the powerful lower chamber of parliament, although a loss of seats is possible.

Kishida also announced his cabinet appointments, with the majority of heavyweight jobs going to allies of former Prime Minister Shinzo Abe or outgoing Finance Minister Taro Aso. Takayuki Kobayashi was named to the newly created post of economic security minister, tasked with addressing issues such as supply chain problems that might hobble domestic industry and preventing technology leaks. For Kishida, boosting economic security is one of the top items on his agenda.

Delivering his first policy speech to the lower chamber of parliament, Kishida outlined his strategy to spark economic growth and to redistribute the fruits of that growth to build up a stronger middle class. He will continue to push for Japan to emerge from deflation, and he identified the "three arrows" from economic plans developed under former Prime Minister Shinzo Abe – aggressive monetary policy, fiscal consolidation and sustained structural reform – as the key tenets of his administration's macroeconomic policy management. Kishida also promised to strengthen pandemic management and healthcare in case of another coronavirus resurgence.

The Bank of Japan (BoJ) downgraded its economic assessments on five of the country's nine regions, citing the lingering impact of the coronavirus pandemic and supply shortages that have hit manufacturers. It maintained its views on the remaining four regions, including the Tokyo area. The BoJ said economic activity, mainly in the services sector, was expected to remain, for the time being, at a lower level than before the spread of the coronavirus. It anticipates, however, that activity will recover as the impact of the pandemic gradually wanes.

China

Data released Friday showed the Caixin/Markit services Purchasing Managers' Index rose to 53.4 from 46.7 in August, rebounding from the lowest level seen since the height of the 2020 pandemic. The 50-point mark separates growth from contraction monthly. Tourism revenues in China during Golden Week fell 5% from the prior-year period, state media reported, which analysts said pointed to a weak outlook for October retail sales.

On Friday, Beijing ordered an immediate increase in coal output to fight the nationwide power crunch, Reuters reported. China has been gripped by power shortages, which hurt production in industries across several regions of the world's second-largest economy.

News from the property sector continued to dominate investor concerns after developers reported sharply lower sales for September, with more announcements of missed debt payments. Fantasia Holdings, a small developer, said it failed to pay a USD 206 million debt shortly after a subsidiary missed paying an RMB 700 million loan on the due date. Separately, Sinic Holdings reported its subsidiaries said it had missed interest payments on certain financing arrangements, resulting in a rating downgrade from Fitch. China Evergrande, the cash-strapped developer that has dominated headlines about a possibly chaotic collapse, reportedly missed payment on a debt guaranteed by the company after having already missed two coupon payments in the past two weeks.

Reports of the defaults came as property sales slowed. The top 100 companies reported a decline of 36% in September over a year earlier, according to China Real Estate Information Corporation. But sentiment remained upbeat, with nearly a fifth of households in China believing that property prices will rise in the fourth quarter, according to a central bank survey.

Australia

At its meeting last week, the Reserve Bank of Australia (RBA) left monetary policy unchanged. The October policy statement repeated that conditions for a rate hike were not expected to be met before 2024 and the economy was expected to recover in the fourth quarter of 2021 as vaccinations increase and restrictions ease. This was followed by the Australian Prudential Regulation Authority (APRA) announcing a macro-prudential tightening earlier than forecasted, by increasing the serviceability buffer used to assess loans from 2.5% to 3.0%. This is expected to slightly reduce the availability of credit.

Equity markets

Last week, MSCI All Country World Index (ACWI) returned 0.7% (12.8% YTD).

In the US, the S&P 500 returned 0.8% (18.2% YTD), recovering a portion of the previous week's losses. Energy stocks led the gains as natural gas prices reached record highs in Europe and major oil exporters decided not to increase production more than their modest previously agreed-upon amount, sending crude oil prices to a seven-year high on Monday. The price of a barrel of Brent ended the week at USD 82.4. The small real estate sector lagged with modest losses. Growth lagged value while small-capitalisation stocks lagged large ones. Russell 1000 Growth returned 0.3% (15.9% YTD), Russell 1000 Value 1.3% (19.1% YTD) and Russell 2000 -0.4% (13.9% YTD). Investors prepared for the unofficial kick-off of third-quarter earnings reporting season, set to begin with some major bank announcements the following week.

In Europe, the Euro Stoxx 50 ended higher 1.0% (17.3% YTD) despite significant volatility, with the financials sector faring well, likely on expectations that potentially higher interest rates and a steepening yield curve would help to boost banks' net interest margins. Germany's DAX added 0.3% (10.8% YTD), France's CAC 40 gained 0.6% (20.8% YTD) and Italy's FTSE MIB climbed 1.7% (19.9% YTD). Switzerland's SMI returned 1.6% (13.1% YTD). The euro was little changed against the US dollar, ending the week at 1.16 USD per EUR.

In the UK, the FTSE 100 advanced 1.0% (13.2% YTD) but the FTSE 250 lost 1.9% (11.8% YTD). The British pound firmed versus the US dollar, ending the week at 1.36 USD per GBP, up from 1.35.

Against the broader backdrop of worries about global inflation, oil prices and the Chinese property market, Japan's stock markets lost ground for the third week in a row. The Nikkei 225 fell 2.5% (3.6% YTD), the broader TOPIX was down 1.2% (10.7% YTD) and the TOPIX Small Index lost 1.4% (11.7% YTD). Share price declines were also due to investors' concerns about the prospective policies of newly inaugurated Prime Minister Fumio Kishida, stemming largely from Kishida indicating that he might support a capital gains tax increase. This could be perceived as a step back from efforts to make Japan more shareholder friendly. The Japanese yen weakened against the US dollar, finishing the week at 112.2 JPY per USD, compared with 111.1 at the end of the previous week, also pressured by the spike in Treasury yields.

In Australia, the S&P ASX 200 rebounded 1.9% (15.8% YTD) as the news from China, the US and energy prices stopped getting worse. The surge in government bond yields following higher inflation risks impacted the longer duration assets. Commodity prices continued to be volatile but the rebound in iron ore prices contributed to the appreciation of the Australian dollar.

Emerging markets and other markets

MSCI Emerging Markets Index returned 0.9% last week (-0.8% YTD), supported mostly by the stock markets of China, Taiwan, and India, while the stock market of South Korea contributed negatively to performance.

Chinese markets rose Friday following the weeklong Golden Week holiday. The CSI 300 Index of large-cap stocks advanced 2.0% (-3.8% YTD) and the Shanghai Composite Index added 1.6% (5.6% YTD). Investors looked past the government's regulatory crackdown, property sector turmoil and a nationwide power crunch and focused on positive economic data.

Yields on China's 10-year government bonds rose three basis points to 2.92%, according to Dow Jones. The renminbi currency was flat versus the dollar at 6.449 recovering from early losses amid signs of thawing Sino-US tensions. US National Security Advisor Jake Sullivan and China's top diplomat, Yang Jiechi, had their first face-to-face encounter, which the Chinese side called "constructive." This contrasted with the last meeting between both countries in March, when differences on various issues were publicly aired.

In Russia, the Russian Trading System (RTS) Index returned 5.3% (40.2% YTD). Russia is a major oil and natural gas exporter, and the equity market – with a substantial weighting in energy companies – has benefited recently from a global increase in energy costs. Other Russian assets have performed well, too, including the ruble.

Over the 2-3 October weekend, a meeting of OPEC nations and non-OPEC members, including Russia, decided to increase global production by only 400,000 barrels per day starting in November, rather than authorise a more substantial increase. Oil-producing nations seem to be more committed to maintaining production discipline. As a result, oil prices reached their highest levels in about seven years in recent days.

Natural gas prices have also reached multiyear levels, as nations in Asia and Europe have been accumulating supplies ahead of winter. Price increases have been especially sharp in Europe, though they backed away from recent highs after Russian President Vladimir Putin suggested that Russia could increase its natural gas deliveries to Europe, particularly in view of the completion of the Nord Stream 2 pipeline.

In Peru, President Pedro Castillo ratified 12 of his 19 cabinet ministers but requested resignations from seven others, one of which was his prime minister, Guido Bellido. T. Rowe Price emerging markets sovereign analyst Aaron Gifford considers this to be a significant move, as Bellido has been a divisive figure and one of the most radical within the president's inner circle. Mirtha Vasquez will instead become prime minister. She is a lawyer, politician, and a previous interim president of Congress, and she is known for her defence of human rights and for going after corruption.

Gifford believes these cabinet changes suggest that the balance of power is shifting in favour of more moderate voices. That said, most of the new cabinet members are still left leaning, so policy uncertainty will likely remain even if governability risks have been reduced.

In a short speech in which he announced the cabinet changes, Castillo spoke against efforts of departing cabinet members to generate political instability. He also called upon various segments of the economy and society to put Peru above ideologies and party platforms and join in broad unity in order to achieve their common goals.

Fixed income markets

Last week, Bloomberg Global Aggregate Index (hedged to USD) returned -0.6% (-1.8% YTD), Bloomberg Global High Yield Index (hedged to USD) -0.5% (2.3% YTD) and Bloomberg Emerging Markets Hard Currency Index -0.8% (-1.9% YTD).

The jobs report appears to foster a rise in longer-term bond yields later Friday morning, building on an increase earlier in the week. The US 10-year Treasury yield briefly neared 1.62%, its highest level since early June. Over the week, it rose 15 basis points to 1.61%, up from 1.46% (70 basis points higher YTD). Debt limit headlines continued to cause distortions in the Treasury bill market, however. One-month bills rallied after a temporary deal was reached, but rates on bills maturing around mid-December – when the government is now expected to run out of cash – more than doubled.

Core eurozone bond yields rose on inflation concerns stemming from the surge in natural gas prices. They rose further, in sympathy with US Treasury yields, after the US Senate voted to raise the US debt ceiling temporarily to prevent a government default. German 10-year bund yield increased eight basis points, from -0.23% to -0.15% (42 basis points higher YTD). Peripheral eurozone bond yields tracked core markets.

The UK 10-year gilt yield ended the week 16 basis points higher, rising from 1.00% to 1.16% (96 basis points higher YTD).

Tracking US Treasury yields, the yield on the 10-year Japanese government bond rose to 0.08% – a multi-month high – from 0.05% at the end of the previous week.

The tone in US the investment-grade corporate bond market was cautious. Volatility in equity markets and the increase in US Treasury yields prompted credit spreads to widen early in the week. Sentiment improved on Thursday, and investment-grade corporate bond spreads tightened, with more volatile auto and energy bonds outperforming. Primary issuance exceeded weekly expectations, and the deals were met with adequate demand.

The US high yield corporate bond market was weaker as growth and inflation concerns weighed on the performance of risk assets. D.C. gridlock also seemed to be a primary concern for investors amid continued uncertainty around the Biden administration's spending agenda. Sellers remained active in the high yield space despite the temporary bipartisan resolution to the debt ceiling issue, leading to improvement in broader markets.

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.

202110-1869608

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

troweprice.com

T. Rowe Price®

INVEST WITH CONFIDENCE