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Weekly market recap

22 November 2021

Summary for the week ending on Friday 19 November

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Economic and political backdrop

The US

Several signs that the economic expansion was regaining momentum seemed to support sentiment early last week. On Tuesday, the Commerce Department reported that retail sales jumped 1.7% in October, the biggest gain since March, while September's increase was revised higher. Inflation was partly behind the increase – sales at gas stations rose 3.9%, for example – but early holiday shopping also appeared to be at work. Industrial production in October also rose much more than expected (1.6% versus around 0.7%), while a current measure of manufacturing activity in the New York region, reported Monday, came in well above expectations.

Wall Street seemed to be on the lookout for the announcement of the next Federal Reserve Chair – in particular, whether President Joe Biden would reappoint current Chair Jerome Powell or instead promote Fed Governor Lael Brainard, who is widely viewed as among the most "dovish" of Fed officials. While many continued to view Powell's re-nomination as the most likely outcome, the growing chance of Brainard's appointment may have weighed on financials shares by lowering interest rate expectations and, therefore, banks' lending margins. Some also believe that Brainard would pursue more stringent bank regulations.

Europe

European countries began re-imposing stricter restrictions – including stay-at-home orders and movement controls – to curb the spread of the coronavirus. The Netherlands announced a three-week partial lockdown of its population. Germany, which is suffering from a record increase in infections, introduced a three-step system of progressively tougher controls depending on hospitalisation rates in each region. Health Minister Jens Spahn said a lockdown could not be ruled out. Belgium mandated a wider use of masks and enforced working from home, as did Ireland.

The European Automobile Manufacturers' Association said that new passenger car registrations in the EU dropped by 30.3% month over month in October to a record low of 665,001 units. This sharp contraction stemmed primarily from a shortage of semiconductors that has weighed on the supply of new vehicles.

The UK

The UK, which has one of the highest infection rates, expanded its vaccine booster programme to people over 40 years old.

UK inflation hit the highest level in almost a decade in October, reaching 4.2% on an annual basis – up from 3.1% in September. Higher energy costs were a big part of the uptick in consumer prices. The number of payroll employees increased by 160,000 to 29.3 million between September and October. These developments prompted speculation that the Bank of England (BoE) might increase interest rates in December. BoE Governor Andrew Bailey told a Parliamentary committee that "the labour market looks tight" and that he was "very uneasy about the inflation situation."

Japan

Prime Minister Fumio Kishida's government approved a larger-than-expected stimulus package, with record fiscal support of JPY 55.7 trillion (around USD 490 billion). By carrying out the stimulus package with a sense of urgency, Kishida hopes to rebuild Japan's pandemic-hit economy and put it on a growth path as soon as possible.

In the fight against the coronavirus, a sizable portion of the spending will go toward infection prevention and reinforcing medical systems. Other key measures, many of which had been outlined before the announcement, include cash handouts of JPY 100,000 (approximately USD 880) to children aged 18 or younger in accordance with an income cap on households, as well as financial aid to struggling families, students and small businesses. The "Go to Travel" subsidy programme to promote domestic tourism will also be restarted. Furthermore, the government has committed to assisting in the building of semiconductor factories to ensure sufficient supplies of computer chips.

Japan's Cabinet Office published its quarterly estimates of GDP. The data showed the economy shrank 0.8% in the third quarter, equal to an annualised contraction of 3.0%. A fall in consumer spending was attributable to the country's coronavirus states of emergency, which were lifted in September, while weakness in exports was caused in part by supply chain constraints – vehicle exports were notably hit by a shortage of semiconductor components.

Separate data released by the Ministry of Finance showed exports rose 9.4% in the year to October, the slowest pace of growth since February when exports fell and following a year-on-year gain of 13.0% in September. Exports to China remained relatively robust, but growth slowed slightly from the prior month, while exports to the US registered very modest growth. Auto shipments to both countries fell markedly.

In a speech to business leaders, Bank of Japan (BoJ) Governor Haruhiko Kuroda said that amid firmness in the corporate sector, he expects an improving trend in the overall economy to become evident in the first half of 2022, when the impact of the pandemic and supply-side constraints are projected to wane. He also said that while it was likely that the inflation rate would gradually increase as the coronavirus pandemic came to an end (expected in fiscal year 2023), it would not meet the central bank's 2% price stability target by then. Given this outlook, Kuroda emphasised that the BoJ needs to persistently continue with powerful monetary easing.

China

Data released at the start of the week showed that economic momentum stayed weak in October as the real estate downturn weighed on industry. Prices for new and resold homes fell amid deeper contractions in construction starts and investment by developers. Housing sales shrank 21.2% in October from September, while 52 of the top 70 cities recorded month-on-month price declines –16 more than in September.

In other economic readings, fixed asset investments continued to slow, rising 6.1% in the year's first 10 months from the prior-year period versus the 7.3% rise from January to September. October retail sales and industrial production each grew faster than expected, though industrial output recorded its second-lowest reading this year.

Real estate firms dialled up their financing plans with a total of over USD 2.7 billion on Wednesday alone, taking the past week's total more than USD 4.5 billion. Plans include Agile Group's USD 310 million convertibles issue, China Evergrande Group's sale of its stake in HengTen Networks Group Ltd. and Country Garden Services Holdings' second share placement in six months. At least three other developers announced bond issues in the domestic market. Meanwhile, ratings agency S&P Global noted in a report that "an Evergrande default is highly likely." Chinese developers owed RMB 33.5 trillion (USD 5 trillion) at the end of the second quarter – about one-third of China's GDP –

making it critical for Beijing to provide support, according to investment bank Nomura.

Outside the real estate sector, China Huarong Asset Management Co., a bad debts manager that has become a test of Beijing's willingness to bail out troubled state-owned borrowers, said in an exchange filing that it planned to raise USD 6.6 billion via asset sales to state-run firms and dispose of more assets in a bid to stay afloat. Analysts are eyeing Huarong's actions as a possible template that other highly indebted companies might follow as Beijing stays the course on its deleveraging campaign.

Australia

Wage growth for the third quarter was in line with expectations, growing 2.2% year over year. It remained below the 3% threshold that the Reserve Bank of Australia (RBA) is seeking to get broad inflation back into the 2% to 3% range. The RBA's minutes confirmed that the monetary policy settings will remain more dovish than what the market expected.

Equity markets

Last week, MSCI All Country World Index (MSCI ACWI) returned -0.2% (18.2% YTD).

In the US, the S&P 500 returned 0.4% (26.7% YTD). The major indexes ended the week mixed as investors weighed strong economic and profits data against inflation fears, ongoing supply strains and a rise in coronavirus infections in some regions. Growth stocks handily outpaced value stocks, helping lift the Nasdaq Composite to another record intraday high on Friday, and small caps lagged large caps. Russell 1000 Growth returned 1.8% (28.8% YTD), Russell 1000 Value -1.8% (21.6% YTD) and Russell 2000 -2.8% (19.6% YTD).

Sector returns also varied widely within the S&P 500. A solid gain in Amazon.com shares and a partial rebound in Tesla boosted consumer discretionary stocks, while strength in Apple supported information technology shares. Energy stocks dropped alongside oil prices after China and the US discussed releasing strategic reserves and US inventories rose for the first time in five weeks. Financials were also weak. Market activity was generally subdued as the Thanksgiving holiday week approached.

In Europe, the Euro Stoxx 50 returned -0.3% (25.7% YTD), as a surge in the number of coronavirus infections clouded the economic outlook. Major European indexes were mixed. Germany's DAX gained 0.4% (17.8% YTD), France's CAC 40 added 0.3% (31.0% YTD) but Italy's FTSE MIB lost 1.4% (26.1% YTD). Switzerland's SMI returned 0.2% (20.6% YTD). The euro lost ground against the US dollar, ending the week at 1.13 USD per EUR, down from 1.14.

In the UK, the FTSE 100 declined 1.6% (15.6% YTD) and the FTSE 250 was down 0.3% (16.7% YTD). The British pound appreciated versus the US dollar, ending the week at 1.35 USD per GBP, up from 1.34.

Japan's stock market returns were muted over a week that saw the government announce a larger-than-expected stimulus package. The Nikkei 225 returned 0.5% (10.0% YTD), the broader TOPIX 0.2% (15.6% YTD) and the TOPIX Small Index -1.0% (13.4% YTD). The BoJ reaffirmed its dovish stance, leading the yen to weaken to JPY 114.0 against the US dollar from JPY 113.9 at the end of the prior week. The yield on the Japanese 10-year government bond ticked up slightly to 0.08% from 0.07% the previous week.

In Australia, the S&P ASX 200 finished the week 0.5% lower (17.7% YTD), largely due to two weak sessions mid-week. Financials were the major drag on the back of subdued earnings from the Commonwealth Bank of Australia, which sold off 8% on Wednesday. While healthcare and miners held up well for the week, it was not enough to bring back the index to a positive return. The Australian dollar finished also in the red for the week. Government bond yields were little changed for week, as they have been since the RBA meeting post the yield curve control (YCC) exit.

Emerging markets and other markets

MSCI Emerging Markets Index returned -1.3% last week (0.3% YTD), supported mostly by the stock market of Taiwan and China's Shanghai Composite Index, while the stock markets of India and Brazil detracted, and China's CSI 300 Index and the stock market of South Korea were broadly flat.

Chinese markets ended mixed last week. The CSI 300 Index of large-cap stocks closed flat (-4.5% YTD) while the Shanghai Composite Index edged up 0.6% (4.7% YTD). Disappointing earnings and revenue from e-commerce giant Alibaba Group Holding for the September quarter topped off a week that saw more negative headlines on the economy amid a scramble from real estate firms to raise funds. The People's Bank of China (PBOC) continued to signal its support for the economy as it unveiled its latest targeted lending programme, this time aimed at the domestic coal sector with RMB 200 billion in financing. Analysts have estimated that the central bank's various programmes are slowly adding up to 1% to 2% of China's GDP.

Yields on China's 10-year government bonds held steady for the week at 2.946%, as Beijing showed a willingness to use the PBOC's balance sheet to steer credit at the margin toward favoured sectors. The yuan weakened to 6.4009 per US dollar, a two-week low.

In Turkey, the BIST-100 Index returned 6.3% for the week (22.2% YTD). On Thursday, the central bank – after holding its regularly scheduled monetary policy meeting – reduced its key interest rate, the one-week repo auction rate, from 16.0% to 15.0%. This rate cut was generally in line with expectations.

According to T. Rowe Price sovereign analyst Peter Botoucharov, this action appears to confirm that the Turkish government prefers a pro-growth policy stance ahead of the general and presidential elections in 2023. To the detriment of foreign investors, this latest rate cut takes place against a challenging backdrop of nearly 20% year-over-year inflation, and it contributed to the lira's decline to a new all-time low versus the US dollar this week. Botoucharov believes that lira exchange rate weakness will add to existing inflation pressures via higher import prices and could push the 12-month consumer price index (CPI) into the 20% to 22% range in the first quarter of 2022.

In Chile, the S&P IPSA Index returned -2.8% (4.3% YTD). The equity market fell this week ahead of this Sunday's congressional elections, in which all seats in the Chamber of Deputies and about half of all Senate seats will be contested.

Also, as was generally expected, President Sebastian Pinera survived two impeachment-related Senate votes related to the so-called Pandora Papers – a cache of leaked international documents that allege questionable or illegal financial activities by various officials, leaders and prominent figures around the world. While both impeachment motions received less than the 29 votes needed (i.e. two-thirds of the Senate) to convict and remove Pinera from office, T. Rowe Price emerging markets sovereign analyst Aaron Gifford notes that the president's popularity has taken a major hit that could influence the outcome for this weekend's elections.

Fixed income markets

Last week, Bloomberg Global Aggregate Index (hedged to USD) returned 0.2% (-1.2% YTD), Bloomberg Global High Yield Index hedged to USD -0.3% (2.3% YTD) and Bloomberg Emerging Markets Hard Currency Index was flat (-1.6% YTD).

US Treasury yields ended Thursday little changed relative to last week's levels but decreased Friday morning on concerns that Germany could follow Austria in implementing another nationwide lockdown to fight COVID-19. The Treasury rally was broad-based along the yield curve, suggesting that investors expect the Fed to take a somewhat more patient approach toward rate hikes amid potentially slower economic growth. The benchmark 10-year Treasury yield ended the week at 1.55%, down one basis point from 1.56% (63 basis points higher YTD).

Core eurozone bond yields fell on dovish comments from European Central Bank (ECB) President Christine Lagarde. She pushed back against interest rate increases on the grounds that inflation would fade and indicated asset purchases could continue beyond the expiry of the Pandemic Emergency Purchase Programme. Fears of further coronavirus restrictions in Europe after Austria's announcement of a nationwide lockdown added to downward pressure on core yields. Over the week, German 10-year bund yield decreased eight basis points, ending the week at -0.34%, down from -0.26% (23 basis points higher YTD). Peripheral eurozone bonds broadly tracked core markets.

UK gilt yields ended the week broadly unchanged following the ECB's dovish signals. The 10-year gilt yield ended the week three basis points lower, down from 0.91% to 0.88% (69 basis points higher YTD).

The primary calendar was active in the US investment-grade corporate bond market, with the level of new issuance surpassing weekly expectations. In general, the deals were met with adequate demand. However, as market participants absorbed the glut of supply, spreads widened in the secondary market, led by weakness in intermediate- and longer-term maturities amid rate volatility. Meanwhile, high yield bonds experienced weakness as inflation concerns and rising rates mitigated risk appetite and energy names traded lower amid the decline in oil prices.

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