MARKET COMMENTARY

FLYING COLOURS
Investment Management

JULY 2021 REVIEW
31ST JULY 2021

Global equities rose during the month as risk sentiment remained robust, with U.S. equities performing well (S&P 500 +1.7% in sterling terms).

Despite inflation surging at its fastest pace in nearly 13 years and rising concerns around the Delta variant, investors focused on strong corporate earnings and robust U.S. growth. 89% of firms in the S&P 500 index have reported results for Q2 2021 and of these, an impressive 87% have beaten consensus estimates. Strong gains in consumer spending (supported by heavy fiscal stimulus), business re-openings, and increasing vaccination rates all helped support equity risk appetite.

That said, US equities are now looking even more overvalued; rarely have equities been this expensive to buy. The long term average price-to-earnings ratio of the S&P 500, for example, is around 16. Right now, it is 35. So US stocks are more than twice as expensive to buy than on average. We believe it's very difficult to justify these levels. In fact, a valuation gauge developed by Yale economist and Nobel laureate Robert Shiller recently showed that the S&P 500 has traded at these levels in only 4% of quarters over the past 141 years.

The spread of the COVID-19 Delta variant remained concerning across several regions. In hopes of quelling the rise in infections, some European countries imposed new restrictions or commenced campaigns to get more people vaccinated, particularly those in the younger age bracket.

Equity market returns outside of the US were muted. The FTSE All-Share index ended the month up 0.5%, while emerging market stocks fell markedly, down 7.3%. The latter was dragged down by weakness in Chinese stocks. Reforms by the Chinese authorities to the private tutoring, technology and housing sectors led to significant equity losses.

Bond market performance reflected more muted growth and inflation expectations. U.S. Treasury yields shifted lower as the 10-year fell 25bps to 1.22%. This was despite several developed market Central Banks reaffirming the transitory nature of recent high inflation data and maintaining easy monetary conditions.

JULY 2021 REVIEW *CONTINUED*

Credit spreads widened marginally in July, although still remain tight relative to historical averages.

Oil prices rose 2% to $76 per barrel after a month of uncertainty around the OPEC+ meeting and production targets. In the end, the producer group agreed to raise production to 400,000 barrels per day from August. Finally, the gold price rallied 2.3%, but remains 4.5% down over the year.