MARKET
COMMENTARY

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# JUNE 2021 REVIEW
## 30TH JUNE 2021

As we move into the second half of 2021, the narrative driving markets has been one of successful vaccine programmes allowing the re-opening of economies, which in turn will drive economic growth and inflation higher.

The beneficiaries have been, among others: commodity firms, financials, value stocks, high yield debt and inflation-linked bonds. The laggards: government bonds, growth stocks and defensive equity sectors.

However, this narrative is showing signs of unwinding and for the first time since the announcement of the Covid 19 vaccines in Q4 2020, market leadership is changing.

This is most clearly seen in the bond markets. Credit spread tightening has stalled and we are seeing a strong rally in developed market sovereign bonds. The 10y US Treasury yield, which peaked at 1.70% at the end of March, rallied hard in Q2 and at the time of writing, is now yielding less than 1.30%.

As bond yields have fallen, so too have the equity prices of sectors that have been outperforming – and in June, growth outperformed value for the first time in 2021.

What has been driving these moves?

As ever with financials markets, there is no single factor at play here but the US Federal Reserve policy meeting in the middle of June was particularly influential.

Every meeting, the regional bank governors indicate when they expect interest rates to rise or fall, and this is collated in “dot plot” projections. Post the June meeting, the expectation is for two rate hikes in 2023, up from no rate hikes just three months ago.

This caused the US 10y Treasury yield to fall, while the 2y yield rose (meaning the curve flattened). All this meant a small 0.8% return from US Government bonds in the month, as the gains from longer-dated bonds were offset by the fall in price from shorter-dated assets. UK Gilts, meanwhile, rose 0.7%.

 

How else did this impact markets in June? As mentioned, there was a clear shift in leadership in equities, with US stocks outpacing other equity regions, buoyed by a strong US dollar.

The US index rose 4.6% in the month, compared to a 1.7% return from Japanese stocks, 1.5% from European and 0.6% from the UK. More pronounced was the outperformance of growth stocks over value, with the former returning 7.5% and the latter 1.5%. Small-caps also underperformed large-caps, although the divergence here was smaller, around 2.5%.

The clear laggard in the month was gold, with price of gold bullion down around 4.5% in the month and gold equities falling 11%.