MARKET COMMENTARY

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Investment Management

AUGUST 2021 REVIEW

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Markets performed well in August despite poor COVID-19 news. The economic recovery continues to gather pace; activity levels are rebounding despite persistent restriction on movement and face-to-face activities in many parts of the developed world.

The key debates continue to shift to the likely shape of the post-recovery economic landscape. In August, markets focused on strong US payroll, unemployment, and industrial production figures and shrugged off some weakness in consumer sentiment data.

The positive animal spirits were evident across markets and regions. Japanese and US equities both rose 4.1% in the month, followed by Emerging Market stocks, up 3.7%. The FTSE All Share rose 2.7%, while the UK mid-cap FTSE 250 index rose an impressive 5.3%. The key area of weakness in the UK equity market was the mining sector, reflecting weaker economic data coming out of China.

In bond markets, longer-term U.S. Treasury yields broadly shifted higher with the 10-year rising from 1.22% to 1.31% by month-end. July FOMC meeting notes indicated that most members expected to begin tapering asset purchases in 2021. This led to losses for UK Gilts and US Treasury indices, down 0.8% and 0.2% respectively. The overall positive sentiment meant spread assets outperformed – with high yield debt up 0.75%. It was also a good month for emerging local currency debt markets, rising 1.8% in August.

The spread of the COVID-19 Delta variant remained concerning across several regions. While generating frequent headlines, the magnitude of the wave of infections from the variant seems to be less severe than feared earlier in the summer – aided by continued vaccine campaigns across most regions.

Another factor at play over the past month was supply chain issues caused by several factors including staff shortages, the Covid pandemic and Brexit. More companies are mentioning supply constraints and cost pressures, curtailing their guidance for full year results.