

# Market reviews

## GBP

October 2021



### Global overview

Global equities made gains over October, with developed markets outpacing their emerging counterparts. US stocks generated strong returns in sterling terms.

The US Senate agreed to extend the debt ceiling, removing the prospect of a US government bond default until at least early December. As October progressed, US stocks also found support from generally strong corporate earnings. Although Japan underperformed sharply over October amid yen weakness, a clear victory in elections on October 31 for the

ruling Liberal Democratic Party (LDP) appeared likely to boost confidence in Japanese assets. Within emerging markets, Brazil significantly underperformed, pressured by political and economic worries, with its central bank hiking interest rates after inflation breached the 10% mark. Global government bond yields ended the month little changed.

### UK

The FTSE All-Share Index rose 1.8% in sterling terms during October. UK manufacturing and services survey data pointed to an acceleration in UK economic growth over the month. Purchasing Managers' Index figures suggested the services sector experienced its strongest uptick since July as new business volumes increased. UK job vacancies hit a record high in the three months to August as the domestic labour market tightened. Inflation eased to 3.1%

in September versus 3.2% in August, owing to a year-on-year decline in restaurant prices. However, the Bank of England's chief economist warned UK headline inflation would likely rise to around 5% by early 2022 against higher energy prices and supply constraints. In terms of sectors, waste & disposal services and banks outperformed, while telecommunications service providers and industrial materials lagged.

### Europe

The FTSE World Europe ex-UK Index advanced 3.0% in sterling terms. Data showed the eurozone grew by 2.2% in the third quarter, helped by export strength and ongoing domestic recovery. Nevertheless, business survey data for October suggested the pace of eurozone growth had slowed for a third consecutive month, with the eurozone Purchasing Managers' Composite Index falling to its lowest level since April. Higher costs, supply bottlenecks and

rising coronavirus cases weighed on business sentiment. The Halle Institute, a German economic researcher, reduced its 2021 growth forecast for Germany's economy from 3.7% to 2.4%, citing supply impediments for the manufacturing industry and further negative impacts for the services sector from Covid-19. Eurozone inflation surged to an officially estimated 4.1% in October versus 3.4% in September against higher energy costs and supply shortages.

Past performance should not be seen as an indication of future performance.

The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

## US

The FTSE All-World North America Index gained 5.3% in sterling terms over October. US stocks rallied after the Senate agreed to extend the debt ceiling, removing the prospect of a US government bond default until at least early December. As October progressed, equities also found support from generally strong US earnings. The US economy grew by an annualised 2% in the third quarter, a sharp slowdown from the

6.7% growth pace of the prior quarter against a resurgence in Covid-19 cases, supply bottlenecks and waning fiscal stimulus. However, business survey data suggested US growth picked up in October led by a significant increase in services sector activity. US inflation rose to 5.4% in September versus 5.3% in August against higher energy, rent and food costs. US residential heating costs were expected to rise significantly.

## Japan

The FTSE Japan Index returned -5.0% in sterling terms over the month. A significant fall in the value of the Japanese yen during October weighed on the returns from Japanese equities for UK-based investors. The yen weakened against most major currencies owing to concerns over the impact of the increasing cost of imported energy to Japan. Investors were also cautious on Japanese stocks ahead of elections on October 31. In the event, a clear victory for the ruling Liberal

Democratic Party (LDP), headed by recently installed Prime Minister Fumio Kishida, appeared likely to boost confidence in Japanese assets. The Purchasing Managers' Composite Index suggested Japan's economy expanded modestly in October following five consecutive months of contraction. Both manufacturing and services activity improved during October as Japanese coronavirus cases continued their recent decline.

## Emerging Markets

The FTSE All-World Emerging Index returned -0.5% in sterling terms over October, trailing the global average. Brazil sharply underperformed, pressured by political and economic worries, with its central bank hiking interest rates after inflation breached the 10% mark. Indian equities eased over October amid profit taking following strong year-to-date gains. Mexico also lost ground, with its economy contracting 0.2% in the third quarter, disappointing forecasts. Indonesia outperformed, as improving

exports and consumer spending boosted recovery hopes. Russia was ahead of the emerging market average though lagged global equities – Russian stocks found support from higher oil prices but were hindered by surging Covid-19 cases. Russia's central bank hiked interest rates amid rising inflation. The Chinese economy was hindered by increased coronavirus restrictions as the government continued a zero tolerance Covid-19 policy in the face of higher case levels.

## Asia Pacific ex Japan

The FTSE World Asia Pacific ex Japan Index returned -0.3% in sterling terms, lagging the global average. Concerns mounted on the Chinese economy as the country increased coronavirus restrictions, with the government continuing a zero tolerance Covid-19 policy in the face of higher case levels. China's official manufacturing Purchasing Managers' Index for October showed factory activity had contracted for a second consecutive month. Korea and Taiwan underperformed amid worries over the impact

of rising global commodity prices and inflation. Australia was among the best-performing Asia Pacific-ex Japan markets. Following three consecutive months of contraction, business survey data suggested Australia's economy expanded in October after the government eased Covid-19 restrictions. Thailand modestly outperformed the regional average as Covid-19 case levels declined and the government announced it was reopening the country for tourism.

## Government Bonds

Global government bond yields ended the month little changed. Minutes from September's Federal Open Market Committee meeting suggested the Federal Reserve would begin tapering quantitative easing in November with a view to ending the asset purchase programme by mid-2022. Meanwhile, European Central Bank (ECB) President Christine Lagarde quashed speculation that the ECB would raise interest rates in 2022, insisting that recent higher


eurozone inflation should prove to be temporary. Rising energy costs and supply shortages saw eurozone inflation jump to an officially estimated 4.1% in October from 3.4% in September. US headline inflation rose to 5.4% in September versus 5.3% in August against higher energy, rent and food costs. The US Senate agreed to extend the debt ceiling, removing the prospect of a US government bond default until at least early December.

## Corporate Bonds

Global corporate bonds were broadly flat over October. While US business survey data pointed to a pick-up in growth in October, eurozone survey data suggested the pace of eurozone growth had slowed for a third consecutive month, with the eurozone Purchasing Managers' Composite Index falling to its lowest level since April. US headline inflation rose to 5.4% in September versus 5.3% in August against higher energy, rent and food costs. Rising energy costs and

supply shortages saw eurozone inflation jump to 4.1% in October from 3.4% in September, according to early official estimates. The US Senate agreed to extend the debt ceiling, removing the prospect of a US government bond default until at least early December. Memory solutions company Micron Technology came to the market with \$2bn of issuance.

## Contact us

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