**Market Commentary for the Period 1st April 2021 – 30th June 2021**

Global equity markets were broadly positive over the quarter led by the US, with emerging markets slightly behind. The general fall in coronavirus cases alongside the re-opening of developed economies helped drive prices higher. Markets were further buoyed by substantial stimulus announced by the US government, as well as ongoing support from central bank policy. Fixed income markets held up well, despite a slight change in tone by the US Federal Reserve with less conviction around temporary nature of rising inflation.

Global cases of the coronavirus continued to rise from the start of the quarter, however peaked in late April before descending back to levels last seen in early March, with similar trends in the death count. In the UK, cases remained low through much of the period until the end of May when cases began rising again due to the Indian Delta variant which accounted for the vast majority of infections. This led the government to delay lifting all restrictions beyond the original stage 4 re-opening date of 21st June, to enable more vaccinations.

Lockdown measures were gradually eased over much of Europe with countries increasing capacity at restaurants, reopening concerts and sports venues, removing curfews and in some cases ending restrictions entirely. In the US, all states continued to either ease measures in place or lift them completely. In Australia, an outbreak of the Delta variant led to many businesses and venues being ordered to shut along with a stay at home order announced in Sydney. This marked the first time in months that cases were reported in multiple regions within the country at the same time.

There were further minor disruptions to vaccine progress earlier in the quarter when the US, South Africa and EU temporarily paused the rollout of the Johnson & Johnson Covid jab following reports of rare blood clotting. Although only a very small number of cases were reported, the US Food and Drug Administration (FDA) recommended this action out of an abundance of caution. The US and Europe health regulator later lifted their suspensions, outlining that the benefits outweighed any risks.

Vaccinations generally progressed strongly across developed economies with countries such as the UK, US and parts of Europe having vaccinated at least half of their population with one dose. President Biden proposed that vaccine producers temporarily waive patent protection to support the rollout to less developed countries, including India and South Africa. A number of pharmaceutical stocks fell sharply following the announcement.

Global travel remained subdued and in the first review of England's traffic light list for international travel, seven countries were added to the red list and Portugal was moved from green to amber meaning tourists could no longer visit the country and people returning had to self-isolate causing some disruption. The UK government then extended the green travel list by 16 destinations with plans to drop quarantine requirements for fully vaccinated people returning from amber list countries later in the summer. European member states aimed to have digital vaccination certificates in place by July to aid travel. However Chancellor Merkel called on EU member states to ban British travellers regardless of whether they have had the vaccine due to the spread of the Delta variant. Hong Kong later placed the UK on its list of extremely high-risk countries, blocking arrivals to keep out variants of the virus.

President Biden initially announced a $2tn infrastructure spending package consisting of $650bn for 'modern infrastructure' such as broadband and water systems, $400bn for 'care infrastructure' including schools and hospitals, spending for transport infrastructure development, funds for training projects and incentives for companies to establish manufacturing jobs in the country. He then released his first annual budget including a $6tn spending plan which would require approval from Congress before passing into law. This includes $1.5tn for operating expenditure for government departments, a $2.3tn jobs plan and $1.8tn families plan.

To help fund a proportion of this spending the President proposed almost doubling the US capital gains tax rate for those with an annual salary in excess of $1m, as well as raising the top income tax rate. This however would not prevent the budget causing a further increase in government debt, with around half expected to be raised from proposed tax increases. On a more global basis, the G7 agreed in principle to implement a minimum corporate tax rate of 15% to avoid countries undercutting each other and raise tax revenue. Large tech companies would be most impacted by higher tax rates. It was also thought this would put further pressure on the G20 in their meeting in July to implement similar policy.

The Chinese central bank banned banks and payment firms from providing services related to crypto-currency transactions causing large declines in the price of Bitcoin and other cryptocurrencies. This also followed news that Tesla would no longer accept Bitcoin as payment due to environmental concerns. A number of Chinese organisations re-iterated that there would be no protection in place for losses from crypto-currencies. China's economic planning agency then announced they would also be cracking down on monopolies in commodities markets, the spread of false information and hoarding. This caused a significant decline in iron ore prices, as well as a fall in other commodity prices including aluminium and steel. The statement followed increasing concerns over soaring commodity prices.

With regards to macroeconomic data, most developed economies suffered a minor contraction in the first quarter which was broadly in line with consensus expectations. The US economy however experienced growth following upward revisions in a number of areas such as consumer spending. While the US economy is now back around where it was pre-COVID, Europe and the UK are not expected to be back on track until later in the year. Trends in unemployment have been positive with most developed economies seeing continued improvements, although some caution remains around the easing of employment support measures such as in the UK where employers now have to contribute towards furlough pay to workers, and this will increase further from here.

Inflation continued to rise with the US being most prominent rising in excess of 5%. Higher energy costs were a common theme across regions. There was a slight divide in recent communication from central banks with the US Federal Reserve bringing forward their expectation of interest rate rises with two rate hikes expected by the end of 2023 following stronger economic activity. They also issued a statement confirming plans to offload the passive funds acquired after ending purchases last year. They indicated sales would be gradual and orderly while minimising the potential for any adverse impact on market functioning.

Other central banks however including the UK and Europe acknowledged stronger growth and inflation, but remained committed to maintaining loose monetary policy and communicated that they would require more evidence that this would be sustainable before changing their stance. The Bank of Japan even extended their relief programme and committed to launch a new scheme to provide funding for financial institutions that extend loans in relation to climate change.

In post-Brexit discussions on trade, EU officials commented that patience was 'wearing very thin' where they insisted the UK must start checking goods entering Northern Ireland as part the Brexit divorce settlement. A six month grace period was agreed to implement rules, but with this expiring at the end of June, it sparked concerns of a potential trade war. On a more company specific basis, Royal Dutch Shell was instructed by a civil court in the Netherlands to cut global carbon emissions by 45% compared to

2019 levels by the end of 2030, far beyond the 20% cut planned. This marked a significant moment with any company being subject to this form of ruling and caused some apprehension among companies in the same sector.

Domestic residential property continued to surge through the period with a number of housing data providers reporting double-digit price rises over the year. Given the re-opening of the economy, low borrowing costs and a lack of housing supply, there remains much upward pressure on the housing market. The stamp duty holiday would have also influenced prices, however some of the momentum may reduce with this being phased out from the start of the following quarter. Higher levels of activity are likely to continue due to the changing preferences caused by the pandemic.

In fixed income, yields broadly fell leading to rising prices in both government and corporate bond markets. While this was contrary to what would be expected in an environment of rising inflation and interest rate hikes potentially sooner than anticipated, it appeared markets had already factored much of this in the first quarter of the year.

**House View**

Inflation remains the key topic on everyone's agendas. In the US for example, inflation reached 5% year-on-year in May having risen consistently since the start of 2021. This is of no surprise given people are now spending huge levels of excess savings built up over the course of last year. In addition, constraints in supplies such as commodities and shortages in staff are also helping drive up prices and wage growth, a portion of which is being spent and further accelerating demand. It must be stressed that prices today compared to a year ago are going to be exaggerated to a degree as it was around this time last year that prices bottomed as consumers were less willing and able to spend.

Another key factor is the extent to which governments and central banks are willing to continue to stimulate the economy. The recent budget announced by the US for example revealed substantial levels of planned spending and central banks have maintained ultra-low interest rates in combination with their sizeable asset purchasing programs. To put this into context, the assets on the balance sheets of the US, European and Japanese central banks have increased over 60% to $24 trillion just since the official start of the pandemic in March last year. The question of whether inflation is temporary or more long-term, particularly given unprecedented levels of stimulus continues to cause much debate as the environment today cannot be compared to any other in history.

In summary, we remain optimistic on the outlook for markets over the medium to-long term. The macroeconomic backdrop is strong with economic growth which is generally being revised higher and levels of unemployment far lower than many could have reasonably predicted given the events of last year. Further to this, planned levels of increased government expenditure is generally market supportive and highly accommodative central banks both provide a tailwind to markets. It is however important that we do not become complacent, acknowledging that asset purchases will have to be tapered and interest rates will have to rise at some point and this has the potential to cause elevated levels of volatility. It may be that we are entering a period where good news is bad news, on the basis that further strength in economies brings forward expectations to unwind policy support. We believe that managing well diversified portfolios and having a dynamic view of the market outlook and will be critical in the upcoming period.

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## Contacts

For issues relating to your financial planning, please contact your usual adviser.

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