HYMANS # ROBERTSON

Flash stats

Q2 2021

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Growth forecasts continue to see upward revisions amid accumulating evidence of effectiveness of vaccines, the deployment of US fiscal stimulus and greater economic resilience to the latest waves of COVID 19. Despite upside inflation surprises, US and UK sovereign bond yields have fallen since the end of March. Equity markets rose over the quarter but the recent fall in yields saw shorter duration sectors and styles underperform.

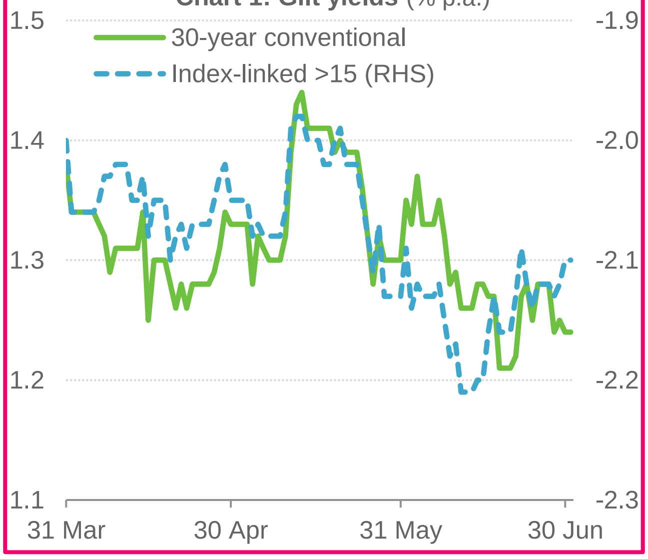
Sterling returns (%) to 30 June 2021

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	7.3	25.0	Gilts (All)	*FTSE*	1.7	-6.2
UK	*FTSE 100*	5.7	18.0	Index-linked (All)	*FTSE*	3.6	-4.0
	FTSE All-Share	5.6	21.5	Corporates (All)	*iBoxx*	1.9	2.9
US	*S&P 500*	8.4	25.9	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	-0.9	10.7	70% equity		5.1	16.3
Europe ex UK	*FTSE Dev Europe*	8.3	23.0	50% equity		4.2	11.4
Emerging	*FTSE Emerging*	5.1	24.5	30% equity		3.3	6.5

- A very sharp rebound in global GDP growth is expected in Q2 as restrictions eased in the major advanced economies. June's consensus forecasts for global growth in 2021 rose to 5.8%, 0.5% above March's forecast. Recent improvements in forecasts see output in many economies reaching pre-pandemic levels by the end of the year, much faster than previously predicted.

- Despite upside inflation surprises in May, US yields fell. After the Fed forecast rate rises earlier than previously, long-term US yields fell further, and the curve flattened. Over the quarter, US 10-year treasury yields fell 0.3% p.a. to 1.5% p.a. and UK yields fell 0.1% p.a. to 0.7% p.a. The gathering pace of vaccine roll out in the eurozone helped equivalent German yields rise 0.1% p.a.

Chart 1: Gilt yields (% p.a.)



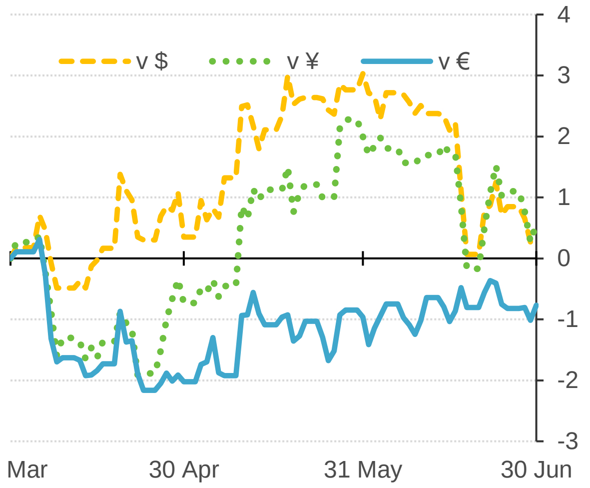


Chart 2: Sterling exchange rates
(% change since 31/03/2019)

- Supply and demand imbalances and a weak base of comparison in 2020 suggest UK headline CPI will increase above May's 2.1% year-on-year rise. May's 5.0% year-on-year increase in US headline CPI exceeded expectations. US core CPI also outstripped expectations, rising 3.8%.
- UK 10-year Implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell from 3.7% p.a. to 3.5% p.a. as nominal yields fell relative to real yields.
- Local currency emerging market debt, as measured by the GBI-EM Global Diversified Traded Index, returned 3.5% in dollar terms as yields fell marginally and index currencies strengthened against the dollar. Hard currency debt returned 4.1%, as both US treasury yields, and credit spreads fell.
- Despite rising 1.4% in June on the back higher near-term rate expectations, the trade-weighted dollar has weakened 1.6% since the end of March, as the global economic recovery became broader based. Sterling has weakened marginally in trade-weighted terms, down 0.5% since the end of March. Gold slipped 7% in June but was still up 3.6% over the quarter.
- Global equities have risen 7.1% since the end of March, supported by positive growth and earnings momentum. The recent decline in bond yields triggers a partial reversal in the so-called "reflation trade". Specifically, more cyclical shorter-duration sectors, such as financials, industrials and basic materials, and styles, such as value and small-cap, underperformed, having outperformed significantly since the initial positive vaccine news in November last year. Conversely, technology, with its longer-duration growth characteristics, outperformed, resulting in regional outperformance by North America. Japan has underperformed by some distance as a resurgence in new COVID-19 cases and low vaccination rates led to new restrictions.
- Rolling 12-month metrics for the UK Monthly Property index have improved significantly as March 2020 values fall out of the comparison. The rolling 12-month total return on the index was 6.8% to end-May and monthly returns have been positive since July 2020. Rolling annual capital returns have risen 1.2% over the last 12 months and been positive on a monthly basis in each month since November 2020. The rise in capital values is largely attributable to strength of industrials, where capital values have risen 14.2% over the last 12 months. Retail sector capital values are 7.7% lower over 12 months, but the pace of declines is slowing, and the sector experienced its first month of positive capital growth in May. Office values are down 4.0% over the 12-month period.

Chart 3: Q2 Regional equity returns
FTSE All-World Indices (%)

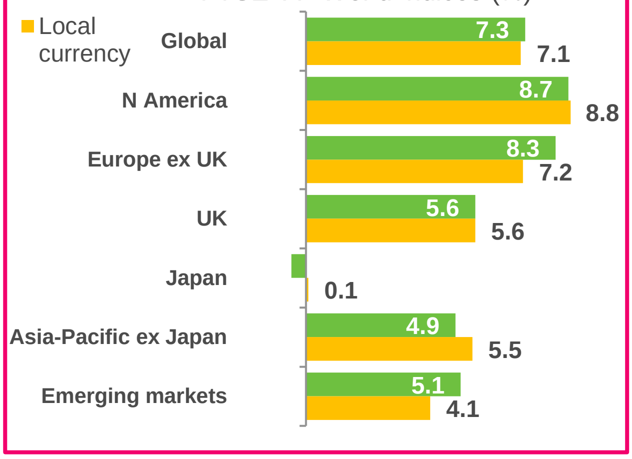


Chart 4: Q2 global sector performance
relative to FTSE All-World Index (%)