Flash stats

Q3, 2021

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Global equities gave up early gains as strong earnings growth was offset by easing economic momentum and the prospect of fading monetary support. UK gilt yields rose as investors brought forward their expectations of interest rate increases.

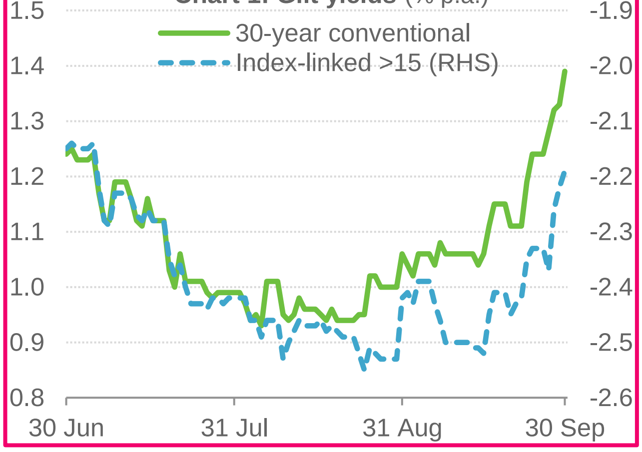
Sterling returns (%) to 30th Sep 21

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	1.5	22.7	Gilts (All)	*FTSE*	-1.8	-6.8
UK	*FTSE 100*	2.0	25.4	Index-linked (All)	*FTSE*	2.3	0.5
	FTSE All-Share	2.2	27.9	Corporates (All)	*iBoxx*	-1.0	0.3
US	*S&P 500*	3.1	24.6	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	7.3	15.7	70% equity		0.9	16.7
Europe ex UK	*FTSE Dev Europe*	0.7	22.0	50% equity		0.2	11.2
Emerging	*FTSE Emerging*	-4.3	14.0	30% equity		-0.4	5.7

- Economic momentum has eased as the initial impact of re-opening late last year continues to fade, with short-term forecasts edging lower in recent months. However, the pace of growth in the major advanced economies is forecast to remain strong over the next couple of years, with consensus forecasts global growth of 5.7% in 2021 and 4.4% in 2022.

- Flash Purchasing Managers Indices suggest that the pace of growth eased over the quarter (despite overall rate of expansion remaining solid), reflecting a combination of peaking demand, supply chain disruptions, and labour shortages. Supply chain delays show no sign of easing, with delivery times and order book backlogs rising at record pace.

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

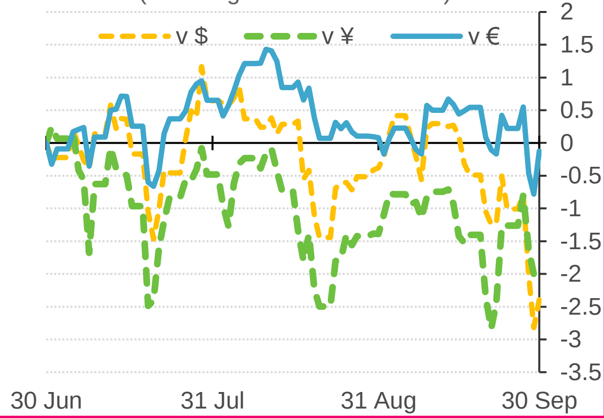


- Supply constraints are pushing prices higher and inflation surprises remain high (UK headline CPI inflation rose to 3.2% year-on-year in August). Rising gas and oil prices are driving up headline measures but even core inflation, which excludes those prices as well as food, is exceeding central bank targets in the major advanced economies.

- As a result, major central banks have indicated rates may rise earlier than previously thought. The Bank of England, which expects UK CPI inflation to rise above 4% year-on-year this winter, have signalled rates may rise as early as Q1 2022.

- UK 10-year gilt yields rose 0.3% p.a., with steep rises coming in the wake of the Bank of England's September meeting. Having fallen earlier in the quarter on the back of easing economic momentum, equivalent US and German yields rose back to end-June levels in September on the prospect of fading monetary support.
- UK 10-year Implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose from 3.5% p.a. to 3.9% p.a. as real yields fell.
- Fears surrounding the potential default of Evergrande, a heavily indebted Chinese property developer, seem to so far have been largely contained within Chinese and Asian credit markets. Global investment-grade spreads were little changed in Q3 and global developed market speculative-grade spreads rose 0.3% p.a. Defaults and leverage levels continues to fall, interest coverage is rising, and liquidity remains plentiful. As a result, credit rating upgrades continue to outpace downgrades.

Chart 2: Sterling exchange rates
(% change since 30/06/2021)



- The trade-weighted dollar has risen around 1.5% while equivalent measures for the sterling and euro eased 0.9% and 0.4% respectively. Oil prices rose 4.4% on an ongoing recovery in demand and natural gas prices continued to shoot higher this quarter, given very low global inventories.
- Global equities gave up earlier gains in September as investors weighed easing economic momentum, prospect of fading monetary support, and potential debt shock in China. Sterling weakness resulted in positive returns to unhedged UK-based investors Strong rises in energy prices propelled the energy sector to the top of the performance rankings while the prospect of higher interest rates buoyed the financial sector. The defensive growth characteristics of the technology and healthcare sectors saw them outperform, while consumer discretionary, basic materials and industrials all underperformed in Q3.
- Japanese markets materially outperformed, rallying on expectations of further stimulus and economic reopening as COVID cases declined. UK markets outperformed, driven primarily by their above average exposure to the energy sector, while emerging markets were pulled lower by weak performance from China, where announcements of tighter regulation have been compounded by a slowdown in the Chinese property and manufacturing sectors, and high energy prices.
- UK Monthly Property capital value index rose 5.8% over the 12 months to end of August is attributable to the buoyant industrial sector, where capital values have risen 21.6%. Office sector capital values have stabilised, although capital values are down 3.1% over 12 months. Retail sector capital values have increased in each of the last three months to August but are 2.2% lower over 12 months. Total return on the index, including income, was 11.6% in the year to August.

Chart 3: Q3 Regional equity returns
FTSE All-World Indices (%)

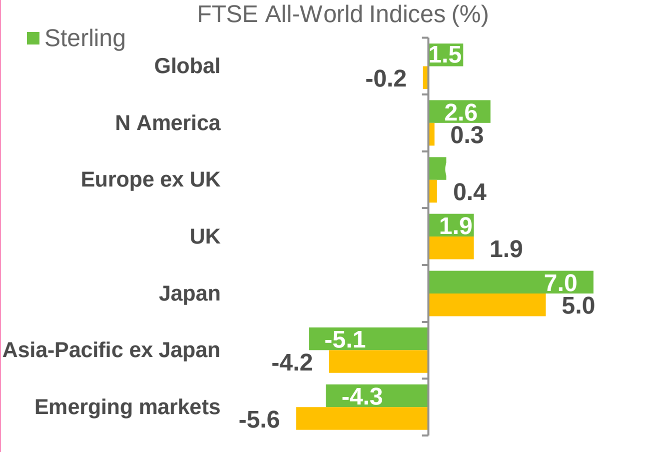


Chart 4: Q3 global sector performance
relative to FTSE All-World Index (%)