Summer Surprises

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"Plagues and wars take people equally by surprise" - Albert Camus

For most investors focused on the U.K., Europe and/or the United States, July was far from an unattractive month in all but a minority of equity sectors. This pleasingly allowed a further building of year-to-date returns. Meanwhile bond market yields generally tightened further. Although fixed income markets remain on average dull performers in 2021, performance has improved in recent months. Compared to the start of the year, such progress should allow the average investor to feel confident. And whilst challenges remain (including the generation of the term 'pingdemic'), it is impressive to read that more than 72.5% of U.K. adults have received two COVID-19 vaccinations so far, which has allowed both national and international travel to slowly restart over recent months.

July also saw the publication of a generally well-received set of corporate earnings data and a solid IMF world economic overview, which showed anticipated growth of 6% in 2021 and 4.9% in 2022. Whilst numbers were maintained for developed market countries - including anticipated U.K. growth of 7% this year and 4.8% next year - some emerging market economies saw a reduction in their anticipated growth numbers. Whilst overall emerging-market shares hit 17-year relative lows versus developed market comparison, the biggest losses in July came in China.

It is not difficult to see considerable economic growth and population wealth growth in China over the 2020s, but recent high volatility levels have been centred on recent bouts of heightened levels of Chinese government interventions impacting a number of important sectors. Heightened levels of financial regulation are not uncommon in any country, however the speed of policy changes can be considerably faster in China than in more classically democratic economies.

Nevertheless opportunities for the emerging markets - including China - remain positive for this decade, aided not only by growth in population wealth but also by lower debt levels. The latter point remains (on average) at a much lower percentage of GDP compared to the developed markets. This point has over recent years been particularly reflected by central bank policy across the developed markets. It is certainly striking to observe that the Bank of England's current very low interest rates had -- prior to the 'financial crisis' well over a decade ago – never previously been below a 2% level. Meanwhile recent OECD figures observe that annual house price growth across wealthy nations has gained over 9% in recent months -- its fastest pace for 30 years. The ability of the U.K., Europe and the United States to combine ongoing stimulus and recovering economic growth levels with very low interest rates and bond yields and still not worry about inflation, is becoming more of a debate.

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months of the year. Now talk about debt levels and their impact on inflation, bond yields and equity market valuations will become more relevant. There are many reasons to be positive, just not about everything almost all of the time. The key remains to stay both global and active.

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