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INVESTMENT SERVICES

Reeves Market Outlook

November 2021

UK Business Leaders Warn of Rising Costs, Labour Shortages, and Supply Disruptions with Support Schemes Ending

Although the government support schemes and vaccine rollout buoyed confidence, business leaders are reporting a fall in confidence with the end of the schemes, rising material and wage costs and skill shortages. The heavily reported shortage of HGV drivers underlines the issue, with the 5,000 visas that will be offered to overseas workers to solve temporary supply disruptions unlikely to provide a solution.

Relevance/Impact

UK businesses are likely to feel the impact of this, with supermarkets alone requiring 15,000 drivers over the coming months. Coupled with the existing supply chain issues, rising costs and wage competition for skilled workers, many businesses are likely to struggle over the coming months. These problems worsen the slowdown in the covid recovery after the initial optimism surrounding the support schemes and vaccine programs, while the cost of this is now being felt by businesses with the reintroduction of VAT for hospitality.

UK equities have been one of the best performing asset classes in 2021. Given the underweight position many have held for the past few years, the vaccine program and Brexit outcome gave many a reason to re-enter the sector.

Source:

UK businesses warn of ‘autumn storm’ of shortages, costs and taxes;
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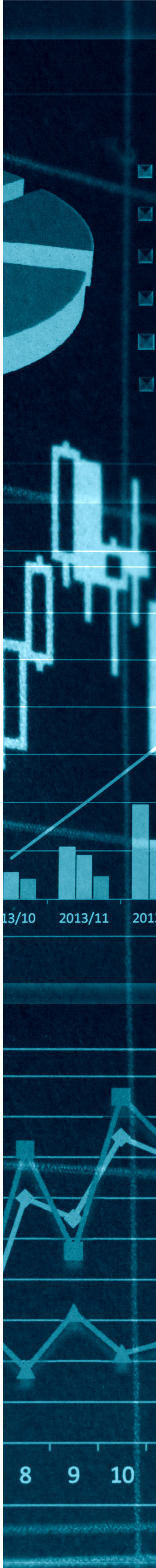

Gas Markets Whipsaw After Russia Offers to Stabilise Energy Prices

Gas markets have experienced huge swings in price due to Vladimir Putin saying that Russia was prepared to stabilise the soaring global energy prices. Energy prices are currently threatening supply chains and are the major contributor to the recent rise in inflation.

Relevance/Impact

Towards the end of October, UK and European gas prices soared to close to ten times their price at the beginning of the year. However, prices reversed soon after due to Putin hinting at Gazprom (Russia's state-backed monopoly) increasing its supplies to help Europe avoid a major energy crisis. Gas traders have explained the recent surge in energy prices as being due to Russia limiting supply, therefore this news has increased the volatility within the energy markets due to an uncertain outlook on future energy prices.

The UK is seen as more vulnerable to the recent gas price crisis in comparison to other countries because it has a small finite storage capacity, making it reliant on a just-in-time system of domestic production and imports from foreign counties. The huge rally in gas prices is forcing Asia and Europe to use coal where possible, which has also seen coal prices reach record levels. Energy and coal prices have a heavy impact on global supply chains and production, leading to a major domino effect on the global economy.

Source:

Gas markets whipsaw after Russia offers to stabilise energy prices;
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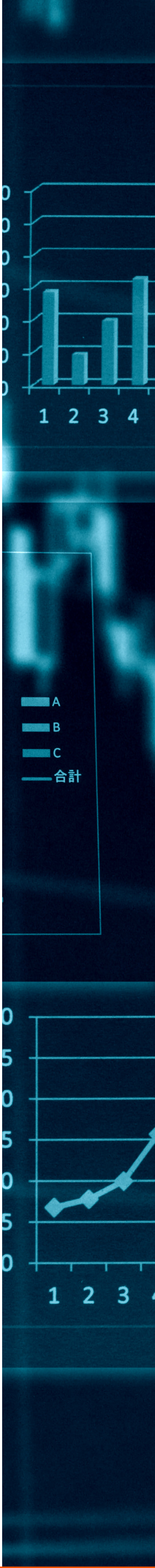


China's Central Bank says Evergrande Crisis is 'Controllable'

A representative of the People's Bank of China has said that the spill over of a crisis at Evergrande on the financial system was "controllable". This is the first time the Central Bank has commented officially on the world's most indebted developer.

Relevance/Impact

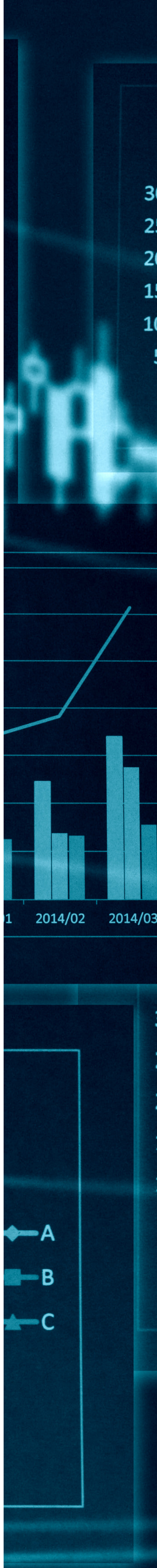
This statement has come as Evergrande faces increasing scrutiny from regulators in lead of a potential default next week. Audit regulator Hong Kong's Peoples Watchdog of China has also announced a probe into the company's most recent audit of its accounts. The official stressed at the press conference that the situation was being resolved by local governments and authorities through market and rule of law principles.

On the one hand, some observers fear the Chinese Government will prioritise retail investors, homebuyers, and domestic banks over Western-distressed debt funds. This could lead to a sell off within Chinese stocks, which may provide a buying opportunity considering that China is widely viewed as one of the highest growth stock areas, however, this may have to weather a further global correction.

Alternatively, the CCP approach may prove fruitful, allowing local regions to absorb the assets of Evergrande and publicly own them. In which case we may see some investor confidence in the area.

Source:

China's central bank says spillover from Evergrande crisis 'controllable';
https://www.ft.com/content/3d797dac-85f4-409d-b1e9-6e8ffb9fcc78



Bank of England Chief Economist Warns UK Inflation Likely to Hit 5%

UK inflation could rise above 5% early next year which will concern the Bank of England's Monetary Policy Committee at its November meeting when it will decide whether to raise interest rates.

Relevance/Impact

Inflation has been increasing rapidly for most of 2021 due to the UK's V-shaped recovery, global supply chain struggles and a surge in energy prices. Financial markets are preparing for a Bank of England interest rate rise as early as November with a growing consensus that central banks need to act to control spiralling inflation.

The Bank's chief economist has also urged that rates no longer needed to be at historic lows of 0.1% due to the easier policies set during the pandemic no longer being needed, implying that monetary policies need to be tightened. However, he also suggested that the rates do not need to move much higher than the 0.75% level set before the pandemic.

The way the Bank of England moves could be an important indicator of how other central banks around the world are also going to react to their spiralling inflation levels. If interest rates are raised, it is expected to have the greatest negative impact on growth stocks as the majority of pricing models used to analyse them use discounted cash-flow models.

Also, if interest rates rise, it is likely to reduce growth companies' future cash flows due to increased borrowing costs. This would likely cause a rotation from growth to value companies as the prices of value funds would seem more attractive from an opportunity cost perspective. The 'transitory inflation' narrative seems to becoming less accepted, which could raise the probability of tightening monetary policies as inflation levels seem to remain persistently high.

Source:

BoE chief economist warns UK inflation likely to hit 5%;
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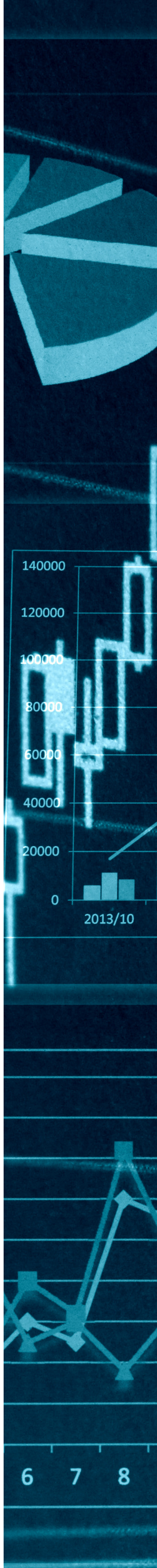

Investors Move Away from Gold to Crypto as an Inflation Hedge

As inflation worries continue to mount and a 'transitory' period of higher prices looks more and more unlikely, many investors are beginning to dump gold as the main inflation hedge in their portfolios, favouring cryptocurrencies.

Relevance/Impact

The conditions for gold to thrive as the traditional hedge to inflation are present, with supply chain issues, pent up demand, and huge central bank stimulus. However, the price of gold has declined 6.1% this year. Meanwhile Bitcoin has more than doubled to new all-time highs, with many seeing the low correlation to other assets and finite number of coins as reasons to prefer holding Bitcoin and other cryptocurrencies as an inflation hedge.

This trend comes as crypto becomes more accessible to retail and institutional investors, with Crypto ETF's debuting in the US at the end of October and already seeing huge inflows. While the move to crypto is expected to continue over the next few years at a rapid pace, the future of gold is harder to predict. While the asset has underperformed this year, under what many would describe as perfect market conditions for it to thrive, some are arguing that if inflation persists gold's fortunes could finally change. Gold's champions cite cryptocurrencies' price volatility and relative infancy as a reason against holding it purely as an inflation play.

Trading cryptocurrency remains an incredibly risky investment as the sector is not regulated by any financial governing body.

Source:

Investors flee gold for cryptocurrencies as inflation worries perk up;
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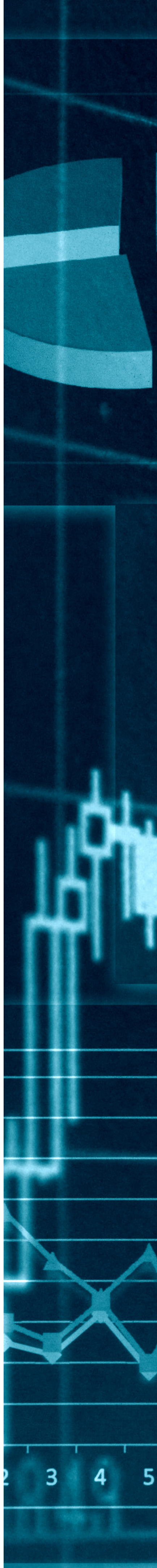


Supply Chain Issues Blamed for Slashed German Growth Forecast

Europe's largest economy has been hit by the global supply bottlenecks and the lasting impact of the pandemic, with growth forecasts for this year by research institutes being cut to 2.4% from 3.7%. While the economy still rebounded strongly from the pandemic, the bottlenecks in supply chains have slowed this momentum, with German industrial output still 9% below pre-pandemic levels.

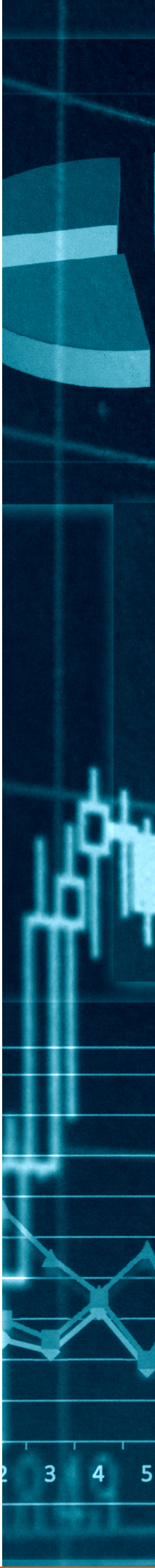
Relevance/Impact

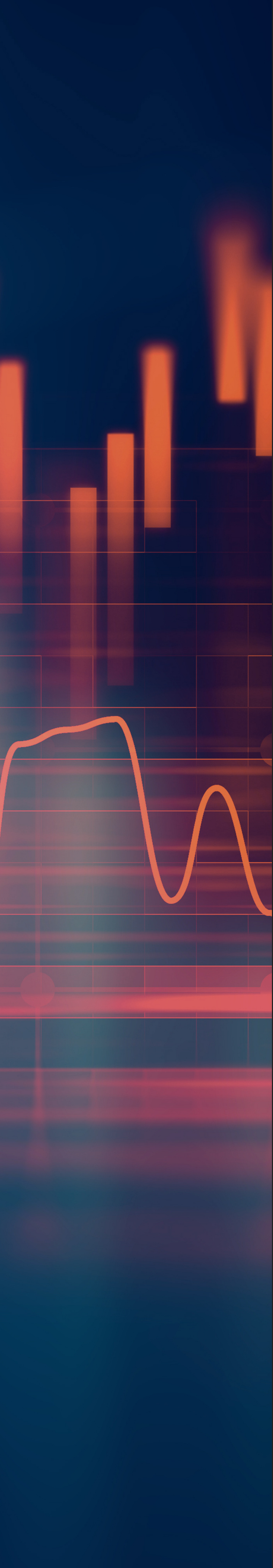
With the economy renowned for car manufacturing, shortages in materials, namely semiconductors, have caused reductions or even suspension of production, with a 17.5% drop in output. Shortages of other key materials, including timber, plastic and steel are causing a further drag on other sectors. While these disruptions are felt across the globe, Germany's export driven economy is particularly reliant on these materials.

While the outlook for the short term was slashed, economists raised their forecasts for next year to 4.8% from 3.9%, as supply chain issues and German inflation figures will probably be resolved gradually over the next year. The confidence in stronger growth next year is evidenced by the country adding 240,000 jobs in the three months to September, and a further 450,000 predicted to be added next year.

Source:

Economists slash German growth forecast as supply problems hit;
https://www.ft.com/content/3f0cad2b-a5d4-4780-8fd0-0374909649c8





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