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Reeves Market Outlook

September 2021

Second Quarter US Economic Growth Disappoints

GDP in the US advanced slightly by 6.5% on an annualised basis, a weaker than expected increase than the 8.5% growth economists had been forecasting. Although there was strong consumption, this was offset by lagging property investments and inventory drawdowns.

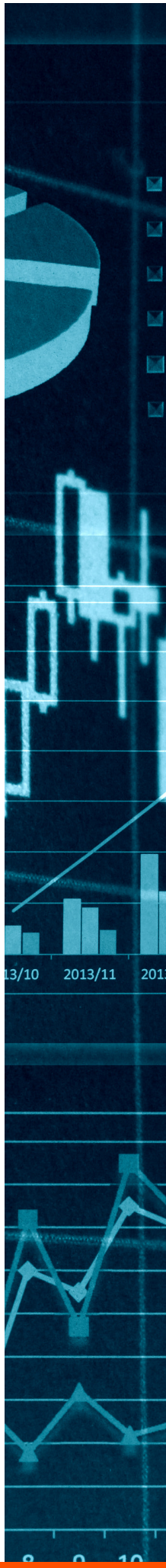
Relevance/Impact

With the rise in annualised GDP in the first quarter hitting 6.3% a further rise to 6.5% isn't unwelcome. However, it will surely disappoint those predicting a larger growth. Personal consumption was the strongest component of the GDP data, believed to have been lifted by millions of US households receiving stimulus cheques between March and April allowing for a 'shopping burst'. It's also believed that the resurgence of the Delta variant of covid in some areas of the country has dampened US economic prospects in the weeks and months ahead.

The opportunity that arises here is that the lagging sectors - such as property and construction - may be areas to consider investing in towards the end of Q3. Currently these areas are tracking behind the rest of the market and may experience a delayed rise later in the year, hopefully aided by a decrease in covid cases and the world further opening up, easing supply issues, allowing construction to continue and for Americans to get back into their offices. Business investment itself in the US was strong, it just declined in private domestic investment, residential investment and business spending on structures.

Source:

US economic growth weaker than expected in second quarter;
https://www.ft.com/content/b7730c9e-8e96-42d4-9b8f-ca0fde656f71



UK Economy Grows 4.8% in Second Quarter

Britain's economy surged in Q2 and saw growth of 4.8% as consumers spent money following the easing of coronavirus restrictions, aided by the progress of the country's vaccination programme.

Relevance/Impact

This rapid quarter-to-quarter growth has allowed the economy to recover to almost pre-pandemic levels. However, the economy still produced 4.4% less goods and services between April and June than in Q4 2019 (just before the pandemic). This was in line with market expectations, although a little lower than the Bank of England's forecast of a 5% expansion. It's also believed that the resurgence of the Delta variant in the UK dampened the recovery as it forced an average of a million people a week to self-isolate and particularly stalled the recovery of the travel sector.

The US has recovered all its lost ground in Q2, and the Eurozone output is only 3% below the pre-pandemic peak in the same period, so the UK's economic performance is still lagging other advanced economies. Therefore, we probably still have room for growth as business' aim to recoup losses, particularly in the hospitality and travel sectors. It will also be interesting to see how smaller business fare moving forward, as it may be that the pandemic provides them some opportunities to break into the market.

Source:

UK Economy Grows 4.8% in Second Quarter
https://www.ft.com/content/875fe197-587b-4b27-aee6-65b15a780ef5

Companies Sound Alarm on Christmas Supply Disruption

UK business leaders have called on the government to help fix labour shortages which have resulted in reduced operations in supermarkets. This is expected to be a major concern in the run-up to Christmas.

Relevance/Impact

A shortage of lorry drivers as a result of post-Brexit immigration rules has hit supplies to supermarkets and other sectors such as: construction, engineering and IT. For example, Iceland has approximately 30 to 40 deliveries being cancelled every day because of lorry driver shortages, ultimately resulting in shortages on shelves.

Experts don't believe that this will self-correct and some recommend that drivers should be added to the 'overseas skilled workers list'.

It's probable that essential retail will continue to face increased demand and, if the business models don't allow for problems within their supply chain, then it could provide problems for companies involved.

Source:

Companies Sound Alarm on Christmas Supply Disruption
https://www.ft.com/content/27742f31-fdde-44b5-a053-73179a460c07

China's Top Court Takes Aim at '996' Overtime Culture in Blow to Tech Groups

Beijing's top court has said that the '996' overtime policy, under which employees in China work 9am to 9pm six days a week, is illegal. This is the latest backlash against China's tech sector, which had, until recently, been embraced in Chinese culture. Alibaba founder Jack Ma once told his employees that they needed to be prepared to work the 996 as it is a 'blessing' and a source of a competitive advantage.

Relevance/Impact

As China has recently faced tensions from the US and its tech crackdown, this is another development that might prompt negative investor sentiment for the Chinese market. Additionally, reduced working hours could decrease the economic output from Chinese companies. However, some studies have shown that fewer working hours increases productivity and hence output over the longer term.

Geopolitical and economic news events have sent shockwaves across the Chinese markets several times over the last quarter.

Source:

China's Top Court Takes Aim at '996' Overtime Culture in Blow to Tech Groupshttps://www.ft.com/content/a794faf1-2ee9-4d19-abc6-72620227396c

China Tech Stocks Set for Worst Month Since Global Financial Crisis

Chinese tech stocks listed in the US have been dumped by investors due to a regulatory crackdown by Beijing. The Nasdaq GD China index, which tracks Chinese tech stocks, has fallen 22% in July. This has put it on course for its biggest monthly decline since 2008. Tencent and Alibaba have dropped by approximately 16% and 10% respectively.

Relevance/Impact

As tech influences a whole economy, any downturn can lead to a negative performance for the rest of the market.

However, investors are undeterred and are still placing their money in Chinese funds as they saw inflows of US$3.6bn in the last week of July, of which US$300m went into Chinese tech funds. China funds also saw higher inflows than their US rivals over the last week of August (relative to the total money invested in the funds). US stock funds had an inflow of approximately 0.1% AUM (assets under management) at the beginning of the week, whereas China had approximately 1% inflows of AUM. Although one week's statistics doesn't determine an overall trend for price direction it's good sign that investors are still interested in the Chinese markets.

Source:

China Tech Stocks Set for Worst Month Since Global Financial Crisis
https://www.ft.com/content/e7c10981-bf06-4255-82cd-01cd1abea7ed
https://www.cnbc.com/2021/07/30/investors-bought-chinese-stocks-despite-regulatory-concerns.html

Bets on Electric Vehicles Light up Lithium Miners and Battery Makers

Interest in electrical vehicles has driven a bull market for speciality metals, with investors betting that an increase in popularity of the vehicles will drive rapid growth for lithium miners and battery producers.

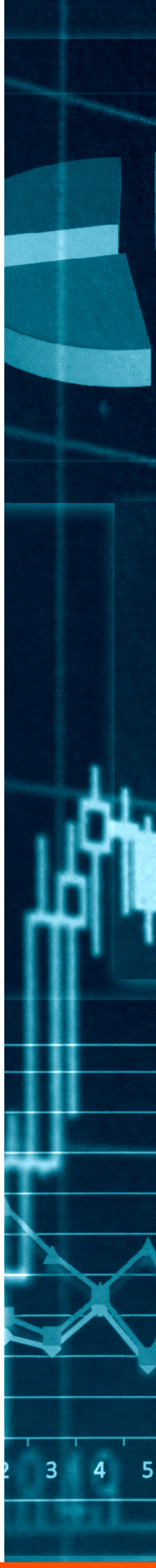
Relevance/Impact

Over the last year the Solactive Global Lithium index (including shares of battery manufacturers) has risen by 32% to a record high, powered mainly by the gains of Chinese companies, including Ganfeng Lithium and CATL. In general, sales of electric cars have surged in Europe and China following indications from policy makers that they might ban petrol and diesel cars by 2035. Volkswagen the world's largest carmaker has stated that it has seen its sale of electric cars lift by 165%. Additionally, prices for lithium carbonate have nearly doubled over the last year (according to the BMI).

Many are seeing this bull market as an indication of a green recovery/revolution following the covid crisis. However, industry leaders have warned that we may see supply lagging demand over the next few years due to mining projects facing delays. In addition, with the rising raw material prices, we are also likely to see an increase in the price of electric cars.

Source:

Bets on Electric Vehicles Light up Lithium Miners and Battery Makers
https://www.ft.com/content/837dca08-d6fa-4336-bc31-add202b1e372



Do you have a question for our Investment Team?

If you have any questions about our Portfolio Management Service or questions about your investments, please book a call with our Investment Service Team who will be happy to answer all your questions.

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