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Investment Services

Reeves Market Outlook

August 2021

1. Rise in UK Retail Sales

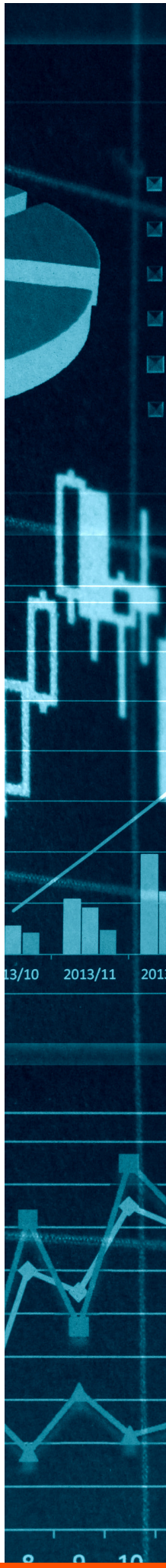
After falling in May, sales rose in June 0.5% month-on-month with the ONS pointing to the growth in food and drink sales during the Euro 2020 tournament. May's decline was attributed to consumers dining out instead of spending in retail as restrictions were lifted.

Relevance/Impact

June's figures showed retail sales were 9.5% higher than before the pandemic in February 2020. However, increasing cases of the Delta variant and a significant part of the population being 'pinged' to isolate threatened to halt this growth just as demand had started to peak, with many businesses now reporting a shortage of staff, which is beginning to affect the availability of some products. It's hoped the government's newly announced 'isolation exemption' scheme will alleviate these strains. Meanwhile, internet shopping is still accounting for more than a quarter of spending which is a greater proportion than pre-pandemic. With this trend persisting, despite most physical stores having reopened, it could signal a long-term direction for the retail scene.

Source:

BBC News (23rd July 2021) People splash out on food and drink for Euro 2020
https://www.bbc.co.uk/news/business-57939140



2. UK Economy Expands by just 0.8% in May, Lower than Economists' Initial Predictions

April saw a strong rebound in growth figures as the economy began to reopen and restrictions were lifted. However, May's figures have disappointed, attributed to bottlenecks in supply chains and labour shortages.

Relevance/Impact

After the boost brought on by the initial reopening phases, growth has started to fade and concerns around rising Covid infections could yet hit consumer spending and exacerbate labour shortages which have already been a drag on growth. The various sectors of the economy have had vastly different experiences, with the boost to sectors such as hospitality and production mostly offset by the supply chain issues and labour shortages. However, while the figures fell short of economists' expectations, they still show growth for the month of May. Some have argued the slowing of growth figures was to be expected as the recovery matured. There is still expected to be huge pent-up demand in the economy, with the European Championship's providing a further boost to the hospitality sector, as well as the almost full lifting of restrictions on July 19th.

Source:

Financial Times (9th July 2021) UK recovery slows as bottlenecks offset rebound in hospitality
UK recovery slows as bottlenecks offset rebound in hospitality | Financial Times (ft.com)

3. Positive Earnings for Big Tech

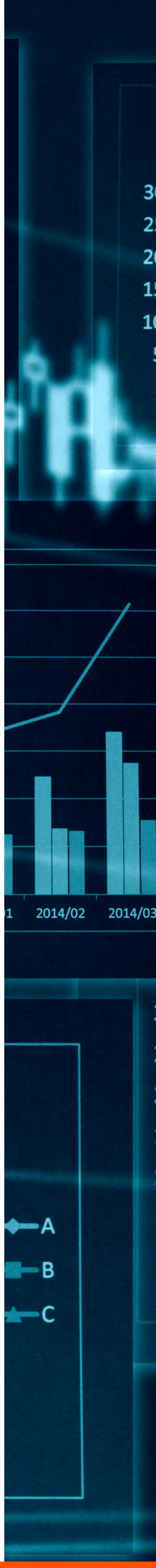
Apple, Alphabet and Microsoft have almost doubled their previous year's earnings, recording US$57bn of quarterly profit. Big Tech companies have been the biggest beneficiaries of 2020 and 2021, with the pandemic forcing a shift globally towards living more digital lives which could now be a permanent trend.

Relevance/Impact

This total profit was almost double the previous year's and was 30% more than Wall Street predicted, underscoring the huge demand globally for digital services and the resilience of the sector as others still struggle to recover from the Covid-induced shift in consumer habits and working conditions. While the pandemic accelerated trends that were already expected, the adoption of tech and success of integrating platforms such as Zoom and Microsoft teams into the workplace suggests the changes prompted by the pandemic will likely remain. But, while optimism surrounds Tech, significant threats such as micro ship shortages and regulators seeking to restrain the power of these superpowers means there will be possible bumps along the way.

Source:

Financial Times (28th July 2021) Apple, Alphabet and Microsoft rake in $57bn of quarterly profits
https://www.ft.com/content/18cfeb9a-8596-4d23-badd-df9a62d510ab



4. Pace of US Inflation Picks up Again in Test for Fed

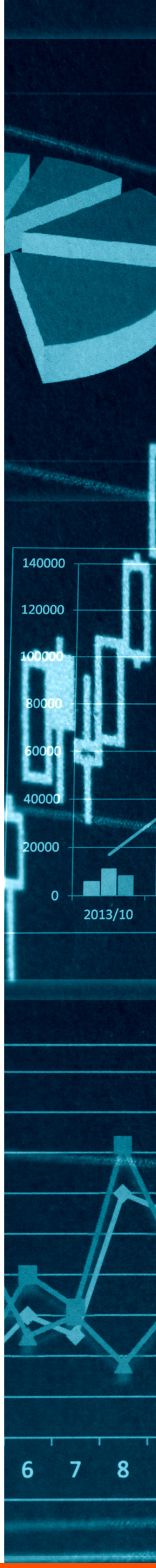
The US Consumer Price Index (CPI) jumped 0.9% in June, the largest monthly increase in 13 years. Over the past year, prices were up 5.4% in the US which is also the biggest annual inflation jump in almost 13 years.

Relevance/Impact

The main question mark over US inflation is whether if it's permanent or transitory. If inflation is permanent, it would erode the real returns of safer assets – such as cash and bonds - that don't benefit much from growth, while risk-on assets such as equities and specialist funds could benefit from a surge in uptake as a hedge against inflation offering higher levels of real growth
. However, if inflation is transitory, it could provide a stable outlook for the economy and a more balanced portfolio could be assembled to capture the equal benefits from all different asset classes. There are respected investment professionals supporting both the permanent and transitory sides of the argument, therefore a balanced portfolio with exposure to both scenarios is a sensible strategy.

Source:

Financial Times (13th July 2021) Pace of US inflation picks up again in test for Fed
https://www.ft.com/content/234a9b90-e4f6-4b59-9e39-c6e34ac78276



5. Yield on 10-year Treasury Dips to Lowest in Four Months

The yield on 10-year treasuries fell 0.07 percentage points, to their lowest level since February. The yields of treasuries are inversely correlated to their price, implying bond prices have risen. This shows that investors are anticipating an aggressive response from the Federal Reserve to lower the rising levels of inflation.

Relevance/Impact

Treasury yields have declined to their lowest level since February, indicating a rise in demand for Treasury bonds. This implies that investors currently prefer lower-risk and hence lower-rewarding investments within the current economic climate. As a result, this has impacted the US stock market which showed a sell-off of industrial goods companies, oil and large banks. As the yields of 10-year US treasuries fell, investors rotated into Big Tech companies, such as Apple and Oracle. Companies such as these have shown great growth within the pandemic and are less affected by macroeconomic fluctuations.

Source:

Financial Times (3rd July 2021) Yield on 10-year Treasury dips to lowest in four months
https://www.ft.com/content/d2344739-0abb-4291-adb4-f856c924526f

6. Electric Vehicles Drive Demand for Commodities

Interest in Electrical Vehicles has driven what some see as a 'bull market' for speciality metals. With investors betting that an increase in popularity of Electric Vehicles will drive rapid growth for lithium miners and battery producers.

Relevance/Impact

Over the past year the Solactive Global Lithium index 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 and 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. 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 behind demand over the next few years due to mining projects facing delays. With the rising raw material prices we are likely to see an increase in the price of electric cars as well as an expectation of an extra rise in the cost of raw materials as vehicle manufacturers try to achieve the ambitious goals set by the policy makers.

Source:

Financial Times (22nd July 2021) 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?

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The value of your investment and any income from it could fall or rise, and you may not get ack the full amount you invest.

Past performance is not a reliable indicator of future results. We always recommend you talk to a qualified financial adviser before making any investment decisions.

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