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2021 July Market Wrap

Monday 2 August 2021

As we wrap up another month in 2021, the headline numbers at the index level still point to a bull market in motion. But cracks underneath the surface are becoming more apparent. Risk sentiment is lower, some of recent weakness is being driven by the fears of the Delta variant, which may be more difficult to overcome than currently priced. Additionally, and perhaps more importantly for markets, we continue to sit at all-time highs at the index level, with most investor still fully invested.

US reporting session as been very good, reported growth is +100% y/y. These numbers are exceptional, especially when using the 2Q20 trough for comparison. When compared to pre-COVID levels (2Q19), numbers are still strong but less extraordinary, at +16%. Beat rates are also well above the historical average (16.1% vs 11.6% average).

The other major story has been investors' concerns over Chinese regulatory actions have deepened given increasing headwinds confirmed for the Internet and Education sectors. This has lead to a broad-based reassessment of Chinese equity risk. In the short-term market valuation will face the greatest pressure from acute deterioration in sentiment and rapid selling activities. It appears preference will move to A-shares that are aligned with national strategic growth blueprints, like cybersecurity and green economy, over ADRs and Internet names, as the former hold lower regulatory risk.

Tuesday, the RBA takes centre-stage when the Board hands down its monetary policy decision at 2.30pm AEST. Since the Board last met on July 6, the near-term economic outlook has deteriorated due to extended virus lockdowns, particularly in Sydney and Melbourne. Commonwealth Bank (CBA) Group economists expect the RBA Board to reverse the decision to slow or 'taper' its bond buying program from mid-September.

Inflation rears it head, The "final demand" component of producer prices (business inflation) rose by 0.7 per in the June quarter to be up 2.2 per cent on a year ago – the strongest annual growth in almost seven years. Import prices rose by 1.9 per cent in the June quarter but were down by 2.5 per cent on a year ago. Export prices rose by 13.2 cent in the quarter to be up by 26.0 per cent on the year.

In the current environment there is a lot of fear about rising prices. The concern is if inflation becomes elevated then central banks will need to wind back monetary stimulus. That may be over-simplifying things. But prices are indeed rising for a raft of items.

At a macro level, the debate focuses on whether generally higher prices are a temporary or transitory phenomenon or whether prices will linger at higher levels. Central banks argue that many of the factors driving prices higher are temporary – related to the effects of Covid-19. The rationale is that higher vaccination rates will allow economies to re-open, production will lift, and that supply will narrow the gap with elevated demand.

So, what does this mean rotation to more defensive, quality/value stock will continue. The bullish case for cyclical stocks says there is currently no policy tightening; no prospect of rates rising; and tapering is increasingly likely to be pushed into 2022.

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The bear case says the Fed will face a quandary with slowing economic momentum yet high inflation — and may end up tapering into a weaker economy.

We tend towards the bull case at this point. Slowing economic momentum would likely ease inflationary pressures as well. All the evidence of the past 18 months suggests governments are pro-growth and will react with more policy stimulus

If you have any questions do not hesitate to contact me.

Stay Safe, Happy and Healthy

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	+0.43%	+32.19%	+14.14%
Nasdaq	+0.23%	+36.55%	+13.85%
S&P 500	+0.99%	+34.37%	+17.02%
Russel 2000	-3.45%	+50.38%	+12.73%
Europe 600 Index	+1.08%	+29.58%	+15.72%
UK FTSE 100 Index	-1.28%	+19.24%	+8.85%
Hong Kong Hang Seng	-8.30%	+5.55%	-4.66%
Japan Nikkei 225	-5.21%	+25.67%	-0.59%
China Shanghai Composite	-3.45%	+2.64%	-2.18%
India S&P BSE Sensex	+0.19%	+39.83%	+10.13%
ASX 200 (Australia)	+1.10%	+24.71%	+14.14%

Australian Dollar

	Close	52 week Range
AUD	0.7343%	0.6902-0.8008%

Government Bonds

	Close	52 week Range
US 3 Month Bill	0.052%	0.052-0.163%
US 10 Years Note	1.228%	0.502 – 1.778%
US 30 Years Bond	1.895%	1.169 – 2.515%
Australia 10 years	1.191%	0.734-1.919%

Source: Wall Street Journal.