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Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Economic & Political News

Economic data has been strong in August, indicating that the global reopening continues. At the same time, as expected, some countries have started to see a slowdown in their rates of recovery. The US economy is running hot as its labour market added 943,000 jobs — the most in eleven months and above market expectations of 870,000. However, evidence that the peak of growth is behind comes from this month's PMIs, which printed 61.1 and 55.4 for manufacturing and services, respectively. In addition, headline inflation came in at 5.4% year-over-year, unchanged from the previous month's 13-year high, which added to the inflation concerns. On this note, the core inflation figure managed to slightly alleviate these worries, after marginally falling due to the softening of pressures in areas such as used cars, which had been spiking until recently. For its part, the Euro Area's economy continued gathering steam in August. However, it is slightly behind the US and the UK in terms of the recovery. The Euro area PMIs printed 61.5 and 59.7 for manufacturing and services, respectively, and its headline inflation came out at 3% year over year, the highest rate of inflation since November 2011.

On the virus front, daily Covid cases picked up across the globe, mainly driven by the Delta variant. In the US, hospitalisations have increased more rapidly than in Europe and the UK, likely driven by a lower vaccination take-up among Americans. In addition, recent studies coming out from Israel and the UK have suggested that immunity starts to wane after six months, although protection against severe disease remains high.

The Federal Reserve's Chairman Jerome Powell claimed that the central bank's policymakers were satisfied with the progress achieved with inflation and restated the bank's stance that it will be transitory. In addition, no adjustments were announced regarding the timeline of asset purchase tapering, which should start by year-end. The Chairman insisted that any tapering should be seen separately from any rate hike. On the fiscal side, the Senate passed a bipartisan infrastructure bill that contains USD 550 billion of new spending. The bill now stands at the House of Representatives where Progressive Democrats are reluctant to support the deal unless it is tied to a USD 3.5 trillion spending bill that the Democrats hope to pass via the budget reconciliation process. On the other side of the pond, European countries have started to receive funds from the EUR 800 billion European Recovery Fund.

Equities

Despite the highest inflation prints in decades, equity markets continued to grind higher, supported by low long-term rates and central banks' dovish. This tone benefitted growth stocks over the month, the MISCI World Growth index returned 3.3%, which helped the S&P500 to return 3% over August.

On a regional basis, despite experiencing a volatile month due to the events in China, emerging markets slightly outperformed developed ones, returning +3.6% and +3.5%, respectively. Within developed markets, the S&P500 outperformed both the STOXX600 (+2.2%) and the FTSE 100 (+2.1%) thanks to growth stocks' performance. Indeed, the Russell 1000 Growth returned +3.7% and the Nasdaq Composite, +4.1%. Moreover, Europe logged its seventh consecutive monthly gain in August. The FTSE MIB increased 2.6%, followed by the IBEX35 and the DAX, which increased 2% and 1.9%, respectively. The CAC40 lagged, increasing by 1% likely due to some profit taking after delivering a strong performance over prior months. The best performing developed markets' sectors were Communication Services (+3.9%), Information Technology (+3.9%) and Finance (+3.7%). The worst performing sectors were Energy (-1.1%), Material (-0.3%) and Consumer Discretionary (+0.8%).

Fixed Income

Despite a slight and gradual move upwards, albeit from very low levels, partially driven by some virus concerns (in China and in the US) and the expectancy for Jackson Hole symposium remarks at the end of the August, global government bond yields remained relatively quiet during the month. The US 10-year yield increased 9bp, closing the month at ~1.31% while the US 2y10y spread improved, widening 6bp to 110bp.

Moreover, core European yields remained very quiet during the summer month: the 10-year German Bund yield increased 8bp to -0.38% and its 2y10y widened 3bp to 33bp. In addition, OATs increased 8bp to -0.03%, BTPs 9bp to 0.71% and Gilts increased 15bp to 0.71%. Lastly, corporate debt rates also declined: US IG and HY tightened 3bp and 66bp, respectively; EU IG were unchanged and HY tightened 10bp; and EM IG and HY tightened 16bp and 22bp.

Emerging Markets

Despite initially declining over 4.5% due to the events in China, the MSCI Emerging markets managed to gain 3.6% in August. Chinese equities were impacted by the continued crackdown on the technology sector, which keeps weighing on investors' mood, as well as by a very restrictive health policy in response to virus concerns. Indeed, the Chinese equity market was among the worst performing, remaining flat over the month.

At the index level, the best performing emerging market (in USD terms) was India (+11%), followed by Taiwan (+4.5%), while Brazil (-2.3%) and South Korea (-1.6%) were the worst. From a regional perspective (in USD terms), emerging Europe led, increasing 4.6%, emerging Asia followed, returning +2.6%, and emerging Latam lagged, returning 08%

FX & Commodities

Although peaking at 93.5 (after having started the month at 92.2), the DXY Index fell back after the FED statement at the Jackson Hole meeting seemingly convinced investors that any tapering should not happen before year-end and that, in any case, it would not be accompanied by rate hikes. Over the month, the DXY increased 0.6% to 92.6. The US dollar strengthened against every major currency. It gained 0.5% to 1.18 against EUR, 0.9% to 1.37 against GBP, 1.1% to 0.91 against CHF, 0.6% to 110 against the JPY. Conversely, it only weakened against the BRL (-0.5%) and stayed flat against the CNY (at 6.4 CNY per USD).

Gold prices were flat during the month, range trading between USD1,760 and USD1,815 per ounce in August, supported by waning inflation expectations and further evidence in terms of the protections provided by the vaccines. The rally seen in oil prices took a breather during the summer months as China reimposed lockdowns and Covid cases spiked in the US. In this sense, after sinking over 15% over the month, prices have recovered: the WTI fell 3.9% to USD 69 per barrel and the Brent remain unchanged around USD 73 per barrel. However, the OPEC+ is expected to stick to the output increase when they meet again in September.

NATIXIS INVESTMENT MANAGERS

RCS Paris 453 952 681 - Capital : €178 251 690
43, Avenue Pierre Mendès-France, 75013 Paris
www.im.natixis.com

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Registered office: 43, avenue Pierre Mendès-France - 75013 Paris
www.im.natixis.com