DART CAPITAL

Market Commentary

August 2021

Investment Managers

Richard Whitehead
richard.whitehead@dartcapital.com

Chris Bellchambers
chris.bellchambers@dartcapital.com

Andrew Savage
andrew.savage@dartcapital.com

Anna Whittle
anna.whittle@dartcapital.com

Research Team

Alexander George
alexander.george@dartcapital.com

Joe Healey
joe.healey@dartcapital.com

Daniel Patterson
daniel.patterson@dartcapital.com

Dart Capital
61 Queen Street, London EC4R 1EB
Tel: 020 7283 1117
Fax: 020 7283 0891

August was another positive month for equity markets, with strong corporate earnings reports and continued vaccine rollouts offsetting questions over Federal Reserve policy and the uncertainty created by ongoing COVID outbreaks.

UK

Although the UK economy has slowed somewhat from its very strong pace in the second quarter, survey data released over the month continued to indicate that business and household activity remains firmly in expansionary territory. The labour market has also remained firm, with the unemployment rate declining further to 4.8% in the three months to July, although the end of the furlough scheme in September is expected to place upward pressure on the number of people out of work. In contrast, the inflation figures released over the month surprised to the downside, with the consumer price index (CPI) showing a 2% increase in prices in the 12 months to July 2021, held down by weaker clothing prices. Despite this, most economists are forecasting annual inflation, as measured by CPI, to push back up towards 3% by the end of the year. Gilt yields pushed up modestly at the end of the month, with the yield on the 10 year Gilt ending the month 6 basis points higher at 0.62%. Pleasingly, COVID cases have stalled over recent weeks, although hospitalisations – which stand at far lower levels than their peaks of last winter - have continued to edge up.

UK stocks, as represented by MSCI UK Large-Cap, gained 0.5% over the period in capital return terms, whilst smaller companies outperformed aided by supportive investor flows and generally strong earnings releases with the Numis Smaller Companies plus AIM (excluding Investment Companies) index gaining 4.2% over August.

US

US economic data over the month was broadly mixed, with the manufacturing sector growing at record pace, whilst the services sector showed signs of slowing from its rapid expansion of the second quarter. Whilst keen to maintain flexibility, should the outlook for the economy deteriorate, the Chairman of the Federal Reserve (the Fed), Jerome Powell, suggested at Jackson Hole that they will – as many had anticipated – scale back their asset purchase programme later this year, now that progress had been made towards achieving the Fed's dual goals of average 2% inflation and maximum employment.

However, whilst this tapering of asset purchases will almost certainly take place over the coming months, we expect the US fiscal and monetary policy mix to remain accommodative, with a long-term focus on raising the wages of lower paid workers and "nominal" growth more broadly. This policy stance is in-line with the broad preferences of the average US voter, many of which have felt left behind over the last 30 years of globalisation. The inflation figures remained elevated, with year-on-year inflation in the 12 months to July 2021 coming in at 5.4%, although the market's reaction was relatively muted on the expectation that the forces driving this will moderate sharply over coming months. The S&P 500 gained 2.9% in US Dollar terms.

Eurozone

The data emanating from the Eurozone economy remains encouraging with GDP rising 2% during the second quarter of 2021 according to data released over the month, confirming that easing of lockdown restrictions has spurred economic activity. Despite this healthy increase, the Eurozone economy remains some 3% smaller than it was at the end of 2019 with the recovery having been weaker than in the US and China where output levels are now back above pre pandemic levels. Strengthening economic activity has triggered an increase in demand for labour, with data released over the month indicating unemployment continued to fall to 7.6% in July, just 0.5% above its pre pandemic low, although – as in the UK – the rolling off of job protection schemes may well put upward pressure on the unemployment rate over coming months. MSCI Europe ex UK gained 2.2% over the month in local currency terms.

Asia

Having lagged most other markets over recent months, Japanese stocks had a stronger run, as signs that COVID cases are starting to flatten helped bolster sentiment with MSCI Japan ending the month up 3.1% in Yen terms. The upcoming election has the potential to further re-invigorate investor interest in Japanese stocks, as whichever candidate wins the election will likely increase fiscal spending in an attempt to boost the economic recovery. Chinese stocks bounced back slightly following a particularly weak July, with some investors returning to heavyweight technology stocks including Tencent and Alibaba which fell sharply in the sell-off. MSCI China H gained 2.4% over the month in local currency terms.

Indian stocks enjoyed a particularly strong month, aided by strong capital flows as investors have bought into the economic recovery and, perhaps, shifted some of their Emerging Market exposure out of China and into Indian markets. MSCI India gained 8.8% over the month in local currency terms.