

Macro update

30 June 2021



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Tracking global reflation



New cases versus hospitalisations



Global growth and reflation



What does this all this mean for markets?

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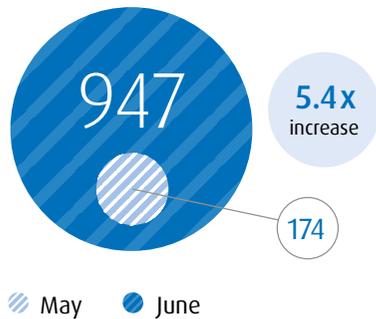
The UK is expecting to lift restrictions further in mid-July. But as new case numbers rise significantly, should investors be worrying about the effect on economies? The UK is enjoying a housing boom, but will the tapering of the stamp duty holiday dampen the market? The US Federal Reserve changed its rhetoric at its June meeting – should we be worried about inflation, and potential rate rises?



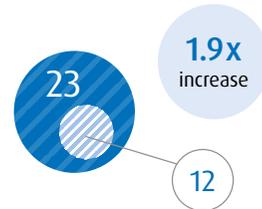
New cases versus hospitalisations

What do the numbers mean for the UK economy?

New cases*



Hospitalisations*

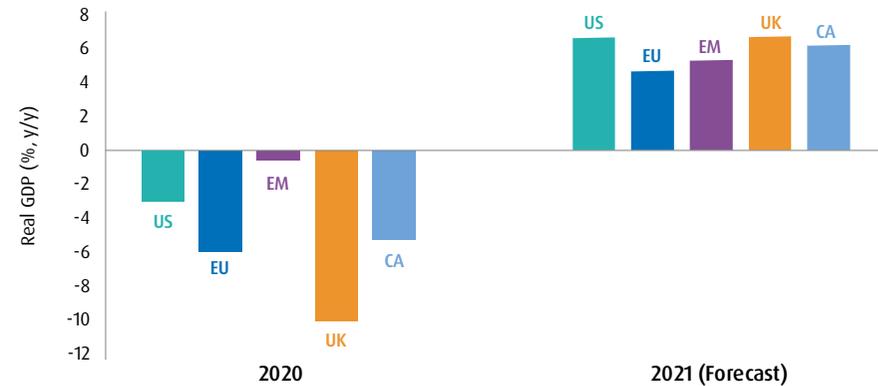


*Per million, weekly numbers

Source: BMO Global Asset Management, Our World in Data, 23-Jun-21

- There has been a marked pickup in new virus cases in the UK; a five-and-a-half-fold increase, the highest case numbers since February. However, testing has also increased, which will skew the pace of change; the Office for National Statistics produces more accurate numbers, and these suggest a slower rise in new cases.
- What matters for lockdown easing is not new cases but hospitalisations, and the success of the vaccination programme means that the increase here has been modest. This suggests that the economy will continue to open up and the recovery should continue at a rapid pace as we learn to live with Covid. The current pessimism about UK prospects is overdone.

Economic growth expectations



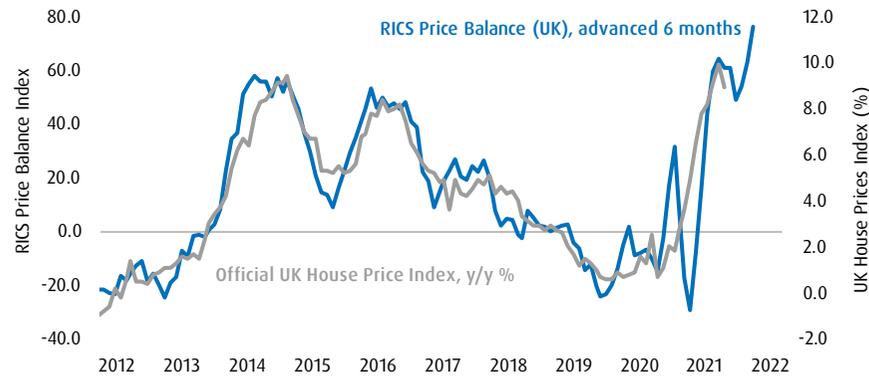
Source: BMO Global Asset Management, Bloomberg, as at 15-Jun-21

- Composite Purchasing Managers' Indices (PMIs) for the US, UK and Europe have converged at very high levels – at around 60 (anything over 50 indicates expansion).
- As vaccine roll-outs progress across the developed world, further lockdown easing can continue. This suggests that global growth will strengthen with the prospect that pre-Covid levels of economic activity will be regained by year-end. Variants are a worry but, so far, vaccines remain highly effective in reducing the risk of serious illness.



Global growth and reflation

UK boom is underway...



Source: BMO Global Asset Management, Bloomberg, as at 24-Jun-21

- UK consumers still have a substantial 'Covid piggy bank' saved up ready to spend, and surveys suggest economic activity in manufacturing, services and construction is growing strongly.
- The UK housing market in particular is enjoying a boom. Mortgage rates have fallen substantially, recently reaching record lows for loans with modest leverage. The stamp duty holiday is being phased out in England and Wales, but data from Scotland, which ended its stamp duty holiday in March, suggests that while transactions will fall back temporarily, the market will remain strong.

...but a very different story for emerging markets



Source: BMO Global Asset Management, Bloomberg, as at 25-Jun-21

- Vaccination rates are much lower in emerging nations, and healthcare systems continue to be under severe pressure. Even where new case numbers are starting to fall, there remains the risk of third waves, and this is affecting the opening up of economies.
- The emerging market PMI numbers, previously having been ahead of developed markets, have fallen behind and this is a trend I expect to continue.
- If the developed market boom is led by the US, the emerging market slowdown is led by China, where the credit binge is being reined in. It is still likely to be a 'soft landing' for the economy, but there is a major reorientation going on, both strategically and in terms of the economy.



What does this all mean for markets?



Overall, the global recovery is gathering pace as developed markets are learning to live with Covid. I believe pessimism on the UK is overdone.



The inflation threat remains, but the markets are buying into the US Federal Reserve's optimism that the current uptick in inflation is only 'transitory'.



Equities are all about earnings, and S&P 500 companies have done an amazing job: actual earnings are back to pre-Covid levels, and forward earnings are ahead. After 4 consecutive quarters of earnings 'beats' – something I've never seen before – it will be tough to repeat this performance. I still think risk assets are the place to be, but with so much already priced in, it is likely to be only modest returns in the year ahead.

Macro update – Webinar

Watch the full replay of the Webinar, including a Q&A section.

Key risk

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

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