HIGHLIGHTS

Monthly Market Analysis **July 2021**

The improvement in the global economic situation is accelerating as service activities continue to recover. While the economic boom triggered by the massive fiscal and monetary support measures was initially limited to manufacturing activity, it is gradually spreading to service activities as the vaccination campaigns progress and economies increasingly open up. In both the United States and Europe, the gap between manufacturing and service sector business indices has virtually disappeared, with almost all indicators at record levels. The economic boom is expected to continue during the summer months as the warmer weather will be better for the health situation. Economic uncertainties are likely to ratchet up as autumn approaches, since increasing contact indoors will provide decisive information on the effectiveness of vaccines against new variants of the coronavirus. In China, the more moderate pace of growth suggested by the economic statistics at the beginning of the second quarter has been corroborated and concerns both household consumption and industrial production. Nevertheless, this slowdown should be seen in perspective, as China's GDP growth for full-year 2021 is still estimated at around 8%. In Japan, exports have been extremely dynamic, benefiting from particularly robust global manufacturing demand.

From very low levels following the general slump in prices a year ago, inflation rates have begun an upward trend. In the United States, headline inflation accelerated significantly, from 4.2% in April to 5.0% in May. Excluding energy and food, inflation increased from 3.0% to 3.8%. The Federal Reserve's preferred inflation indicator, the PCE (personal consumption expenditures) deflator excluding energy and food, rose from 3.1% to 3.4%, its highest level since December 1991. In the eurozone, inflationary pressures are considerably weaker. From May to June, the inflation rate remained almost unchanged, dipping from 2.0% to 1.9%. Excluding energy and food, it declined from 1.0% to 0.9%.

Although the FOMC left monetary policy unchanged at its June meeting, for the first time since the outbreak of the pandemic, Fed Chair Jerome Powell signalled his intention to prepare for a moderation of the extreme monetary support measures. He suggested that talks on tapering the Federal Reserve's asset purchases might begin soon. Even if an FOMC debate on the timing of future interest rate hikes may be premature, the majority of its members now consider that there could be two 25 basis point rate hikes in 2023 instead of in 2024 as previously estimated, bringing forward the expectations of monetary tightening beginning by one year. In Europe, the Governing Council of the ECB has given no indication of a change in the expansionary nature of its current monetary policy.

Despite the deterioration in inflation statistics, US Treasury yields have been surprisingly stable. The yield on the 10-year US Treasury note even declined slightly over the month, from 1.59% to 1.47%. In the eurozone, long-dated yields also fell slightly, with the benchmark 10-year government bond yield dropping from -0.19% to -0.21% in Germany, from 0.17% to 0.13% in France, from 0.91% to 0.82% in Italy, and from 0.46% to 0.41% in Spain.

Equity markets closed the first half of the year on a positive note. With no setbacks in the first six months of the year, the MSCI All Country World Index Net Total Return in euros gained 4.5% in June for a rise of 15.9% since the start of January. In the United States, the equity market rally propelled the S&P 500 and the Nasdaq to new all-time highs. Over the month of June, the S&P 500, the Stoxx Europe 600, the Topix in Japan and the MSCI Emerging Markets posted performance of 2.2% (in USD), 1.4% (in EUR), 1.1% (in JPY) and -0.1% (in USD) respectively. In terms of sectors, there was a slight rotation from financials and cyclicals, which have made strong gains since the beginning of the year, to technology and healthcare, which have tended to lag in recent months.

The Fed Chair's comments about the start of discussions on a possible moderation of its extreme monetary support measures drove the dollar higher against the euro, with the euro/dollar exchange rate falling from 1.22 to 1.19 over the month. Precious metals were also affected and posted significant declines. Gold gave up 7.2%, from $1,907 to $1,770 per ounce. Silver depreciated by 6.8%, from $28.0 to $26.1 per ounce.