

HIGHLIGHTS

Monthly Market Analysis

November 2021

Signs of moderation in global economic growth that appeared during the summer months were confirmed with the publication of third-quarter growth figures. In the United States, real GDP grew by 2.0% (quarter-on-quarter, annualised) between July and September compared with 6.7% between April and June. In the eurozone, most countries are still enjoying a strong phase of economic recovery, which explains the higher GDP growth of 2.2% (quarter-on-quarter, non-annualised) over the area as a whole in the third quarter. In China, GDP growth decelerated to 4.9% year-on-year due to a slowdown in real estate activity following the financial difficulties of the property developer Evergrande China, a resurgence of Covid-19 infections, and a power shortage. In Japan, supply difficulties in the automotive sector and the slowdown in Chinese demand began to show an adverse effect on exports in September. The rising cost of living following the spike in inflation, ongoing supply chain problems, and a possible resurgence of Covid-19 infections as winter approaches are the main uncertainties looming over the outlook for global economic growth in the fourth quarter.

Inflation rates remain at high levels. In the United States, headline inflation edged up from 5.3% in August to 5.4% in September. Excluding energy and food, inflation was stable at 4.0%. The Federal Reserve's preferred inflation indicator, the PCE (personal consumption expenditures) deflator excluding energy and food, was unchanged at 3.6%, its highest level since December 1991. In the eurozone, inflation is still on a rising trend. From September to October, the headline inflation rate rose from 3.4% to 4.1%, the highest since July 2008. Excluding energy and food, it increased from 1.9% to 2.1%.

At the FOMC monetary policy meeting scheduled for 3 November, Fed Chair Jerome Powell is expected to announce it will begin tapering its asset purchases. The current \$120 billion of government bond and mortgage purchases would be successively reduced by \$15 billion each month and end by mid-2022. In Europe, the Governing Council of the ECB kept monetary policy unchanged at the end of its October meeting. Although ECB President Christine Lagarde acknowledged that the high price level is more persistent than previously estimated, she still expects inflation to fall during 2022. More precise indications on the future direction of European monetary policy are expected at the Governing Council's final meeting of the year in December.

Government bond yields rose slightly in October, reflecting investors' doubts about the transitory nature of current inflationary pressures. The yield on the 10-year US Treasury note rose from 1.49% to 1.55% over the month. In the eurozone, yield spreads between core and peripheral countries widened slightly, reflecting uncertainties over future ECB government bond purchases in the run-up to the likely end of the emergency pandemic purchase programme in March 2022. The benchmark 10-year government bond yield rose from -0.20% to -0.11% in Germany, from 0.15% to 0.27% in France, from 0.86% to 1.17% in Italy, and from 0.46% to 0.61% in Spain.

After the correction in September, equity markets resumed their bullish trend in October. The weakness in September is characteristic of the consolidation that often happens in the autumn before share prices begin to rally at the end of the year. It remains to be seen to what extent the persistent nature of current inflationary pressures could disrupt the equity markets' traditional year-end flurry. The MSCI All Country World Index Net Total Return expressed in euros posted a new record high at the end of October, with a rise of 5.3%. The S&P 500 in the United States, the Stoxx 600 in Europe, and the MSCI Emerging Markets gained 6.9% (in USD), 4.6% (in EUR), and 0.9% (in USD) respectively. After rising against the tide the previous month, Japan's Topix was alone in falling, by 1.4% (in JPY). In terms of sectors, consumer discretionary, technology, energy and financials performed best, while less cyclical activities such as communication services and consumer staples recorded more modest gains.

On the foreign exchange markets, the euro/dollar rate was unchanged at 1.16. Precious metals appreciated slightly after weaker prices in the previous month. The gold price added 1.5%, from \$1,757 per ounce to \$1,783. Silver appreciated more sharply, with the price per ounce gaining 7.8%, from \$22.2 to \$23.9.