

THE BIG PICTURE OF GLOBAL ECONOMICS

GLOBAL CIO WEEKLY BY GARY DUGAN



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Review of June and Q2 Asset Market Returns

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Review of June asset class returns

US equities continued to lead equity market returns in June. US equities +2.2% contributed most of the Global Equity return of 1.7%. Asian markets were largely on the backfoot with a very modest return from Japan (+0.5%) and Asia ex Japan (-0.1%). Ongoing localised COVID related lockdowns, and a poor pace of vaccinations is hurting Asian equity markets. The lack of growth momentum and limited signs of corporate earnings momentum have hampered market performance.

In bond markets the Fed's messaging has kept long-term bond yields in check and the global aggregate index managed eke out a 0.3% return. Spreads also narrowed allowing high yield

bonds and emerging market bonds (\$) to perform. Negative yielding debt had a particularly bad month. Investors preference to take US debt risk, rather than stay with negative yielding debt in places such as Japan and Europe particularly when there is more inflation around may explain the poor returns. The dollar benefitted from capital flows into dollar assets with a 2.5% rise in the trade weighted index.

The dollar's rise led to weakness in the gold price despite further upward surprises to global inflation.

Table 1: June asset class returns

SP500 (TR\$)	2.2%	Global Aggregate Index
Japan (TR \$)	0.5%	UST 7-10yr
FTSE all share	0.8%	US High Yield
Europe ex UK (TR \$)	0.2%	EM bonds
Asia ex Japan (TR\$)	-0.1%	Negative yielding bonds
MSCI World TR \$	1.7%	Inflation linked bonds
China (TR\$)	0.5%	Brent (\$bbl)
India	1.2%	Trade weighted Dollar
MSCI EM (TR\$)	0.3%	Gold
SP500 (TR\$)	2.2%	Global Aggregate Index

Source: Bloomberg

Review of second quarter asset class returns

Building on a solid first quarter, most assets gave a positive return in the second quarter despite some headwinds from a disrupted recovery in global growth, and mounting signs of a more persistent rise in inflation. US inflation hit 5%, however that didn't do too much damage to the bond market which largely took the news in its stride.

Good equity market returns in the second quarter were largely in the US and Europe. European markets came alive helped by higher oil prices, and hopes for an unwind of the lockdowns across the region.

Emerging market returns were held back by the first sign of rate increases. Turkey, Russia and Brazil all raised rates and the tightening of monetary and fiscal policy in China didn't help. Commodity markets had a strong run. The Bloomberg commodity index was up 13%. Most of the commodity return was seen in the first part of the quarter, the exception being the oil market where inventory drawdowns have kept oil prices on the rise.

Table 2: Second quarter asset class returns

SP500 (TR\$)	8.5%	Global Agg	1.0%
Nasdaq	9.5%	UST 7-10yr	1.9%
Japan (TR \$)	-0.4%	US HY	2.7%
FTSE all share	5.6%	EM bonds	3.9%
Europe ex UK (TR \$)	7.8%	Negative yielding	0.3%
Asia ex Japan (TR\$)	-0.1%	Inflation linked	2.9%

MSCI World TR \$ **1.7%**
China (TR\$) 0.5%
India 1.2%
MSCI EM (TR\$) **0.3%**

Source: Bloomberg

Brent 6.0%
Trade weighted Dollar -0.9%
Gold 3.7%

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