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PRIVATE CAPITAL

# Monthly Market Update



## October 2021

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“Developed market equities were little changed in Q3, but the US Fed stated that it would soon slow the pace of its asset purchase programme”



Matthew Cove DipFA  
Director  
01304 371 753

## September 2021 Market Commentary

Developed market equities were generally unchanged in Q3, with the declines in September erasing gains made earlier in the quarter. Emerging market equities notably under performed amid a sell-off in China. Furthermore, global bond yields were little changed during Q3; the US Federal Reserve commenting that it would soon slow the pace of its asset purchase programme. Commodities gained, with natural gas seeing a sharp increase in price.

### **United Kingdom**

FTSE All Share: -0.96%

UK equities rose over Q3. The FTSE 100 was predominantly driven upward by rising commodity prices benefiting companies in the energy sector and a number of domestically focused companies being involved in merger & acquisition (M&A) activity.

The Bank of England (BoE) became more hawkish as inflation continued to surpass its expectations, with commentators expecting a change to current BoE policy earlier than previously thought. Inflationary pressures were aided by supply bottlenecks, which have started to constrain output as well as contributing to gas and fuel shortages towards the end of the quarter.

## United States

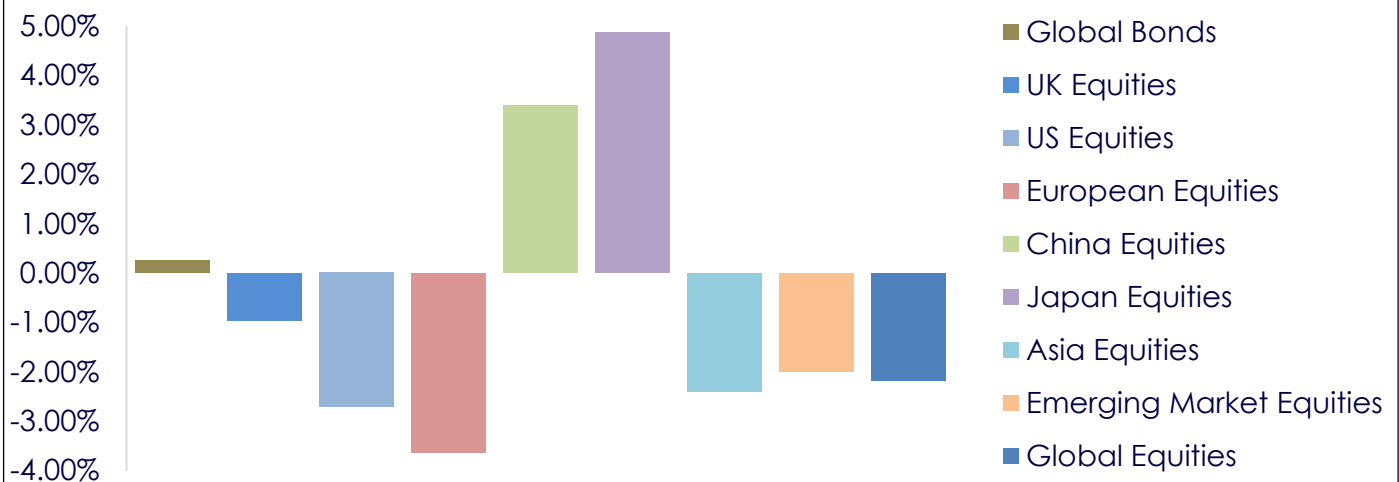
S&P 500: -2.71%

US equities returned a small positive gain during Q3. Strong corporate earnings lifted US stocks in the run up to August and the Federal Reserve (Fed) confirmed its hesitance to tighten policy too fast. However, growth and inflation concerns late in Q3 meant US equities retreated during September and the Fed stated that tapering of quantitative easing (a

Despite this, as Q3 progressed, worries emerged over inflation due to supply chain bottlenecks and rising energy prices, with annual eurozone inflation estimated to rise to 3.4%. However, the European Central Bank (ECB) said that it will currently tolerate an overshoot of its 2.0% inflation target.

Germany held a general election which saw the Social Democrats (SPD) take the largest share of the votes. Coalition talks are now

## Discrete Monthly Performance as at 30/09/2021



slowdown in their asset purchase programme) is expected to commence in November and finish completely by mid-2022.

Meanwhile, experts predict US interest rates to rise at a faster rate as inflation increases. The Fed now sees inflation running up to 4.2% this year, above its previous estimate of 3.4%. The Fed raised its GDP projections for 2022 and 2023 to growth of 3.8% and 2.5%, respectively.

## Europe

FTSE Developed Europe ex UK: -3.63%

Eurozone equities were flat in Q3, with energy and IT stocks seeing robust gains. The quarter started with positive corporate earnings and ongoing economic recovery from the pandemic. The Delta variant of Covid-19 continued to spread. However, most large eurozone countries have now fully vaccinated around 75% of their population, enabling many restrictions on travel and other activities to be lifted.

under way over the formation of a new government.

## China

CSI 300: 3.40%

Chinese equities recorded a sharply negative return in Q3. This was partially due to concerns over the ability of property group Evergrande to service its debts. The Evergrande situation sparked global investor concerns over potential market contagion risks.

Market concerns over inflation and the outlook for interest rates also dampened investor confidence during the quarter. China was the worst-performing market, with sentiment towards the country also weakened by the government's regulatory crackdown affecting the education and technology sectors. The downside risks in China have significantly increased against a backdrop of slowing economic activity and concerns that recent regulatory policies will further weigh on growth.

## Japan

MSCI Japan: 4.88%

The Japanese equity market recorded a total return of 5.2% for Q3. Throughout the pandemic, Japan has consistently seen a lower infection rate than most developed countries, but faced a much more serious test during early summer as infections picked up rapidly. On 3 September, in a surprise decision, Prime Minister Suga announced his intention to resign and continuity candidate, Mr Kishida, became Japan's 100th prime minister.

## Emerging Markets

MSCI Emerging Markets: -1.99%

Emerging market (EM) equities declined in Q3, which saw regulatory actions in China as the initial trigger for market weakness.

Brazil was the weakest market in the MSCI EM index, as above-target inflation continued to rise and the Central Bank responded with further interest rate hikes. South Korea also posted a double-digit fall amid falling semi-conductor prices. Weaker industrial metals prices also weighed on performance of net

exporter markets Peru and Chile. By contrast, net energy exporters in general outperformed, most notably Colombia, Russia, Kuwait, Saudi Arabia, Qatar and the UAE. India delivered a strong gain, with sentiment boosted in part by the recent stream of initial public offerings.

## Global Bonds

Bloomberg Barclays Global Agg: 0.26%  
US and European government bonds were unchanged for Q3 as a decline in September reversed amid continuing inflationary pressure. The UK under performed, with a significant rise in yields due to increased expectations for monetary policy tightening.

The UK 10-year yield increased from 0.72% to 1.02%, with BoE policymakers suggesting that rate rises might be warranted before the end of the year and in Europe, economic activity continued at a robust pace, benefiting from the release of pent-up demand, whilst having come out of lockdowns relatively late.

Among corporate bonds, high yield made positive returns, while investment grade credit was little changed.

**All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.**

## Cumulative Performance and Annualised Volatility as at 30/09/2021

	1 Year %	3 Years %	5 Years %	Volatility % <sup>2</sup>
Global Bonds	-4.99	9.55	6.33	7.74
UK Equities	27.89	9.53	29.81	13.69
US Equities	24.09	48.50	104.42	13.14
European Equities	21.13	27.60	57.60	13.60
Japan Equities	17.04	20.29	50.66	11.88
Asia Equities	25.37	31.59	63.40	13.80
China Equities	9.09	54.84	64.82	16.39
Emerging Market Equities	13.33	23.82	49.82	13.74
Global Equities	23.51	40.07	83.40	12.45

Data source FE Analytics 30/09/2021. Indices used: Global Bonds: Bloomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.

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