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June 2021 Market Update

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In some ways, May was a relatively quiet month. Although, it did bring us the marriage of Prime Minister Boris Johnson, the first PM to marry in office since Robert Jenkinson, 2nd Earl of Liverpool, in 1822.

Having eaten a slice of wedding cake and gone straight back to the office, Boris Johnson will be relatively pleased with what he saw in May. There were plenty of optimistic forecasts for the UK economy and the stock market ended the month above the 7,000 mark.

In the wider world, both China's exports and imports surged in April as the first trade talks were held with the new Biden administration. The jobs figures in the US were disappointing, despite a recovery in the economy. However, Amazon, in the news as always, seems to be trying to tackle the jobs problem on its own.

It was a good month for the stock markets we cover in the Bulletin, with most of the major markets making gains in the month. Those that didn't make gains at least managed to hold their own. It was also a month in which a herd of cows brought British Rail to a standstill, and the UK was rocked by news of a devastating crisis for ice cream lovers. As always, let us look at all the details.

UK

The month started in the UK with our glass not so much half full or half empty, but having never been filled in the first place. Even as the lockdown restrictions were eased, thousands of businesses in the hospitality sector were unable to reopen, simply because they could not find any staff. It was a story echoed in other countries, thousands of staff have left the hospitality sector in the past year, leaving many pubs and restaurants desperate for someone to pull pints and serve food.

More generally, UK job vacancies hit their highest level since the start of the pandemic, with 675,000 vacancies reported in the February to April quarter as the unemployment rate fell slightly to 4.8%.

Sadly it looks like the ranks of the unemployed could soon be swelled by more retail staff, with many stores reported to be facing closure over unpaid rent. A moratorium was agreed at the start of the pandemic which stops landlords taking legal action over unpaid rent. That ends on June 30th, with two thirds of retailers have apparently been told that they will be subject to legal action. With shopper numbers reportedly still down 30% on pre-pandemic levels, good news for the high street was hard to find.

Perhaps symbolically, the last Debenhams closed its doors in May. Equally symbolically, Amazon announced plans to take on 10,000 more staff.

Away from the high street the news was mostly good for the UK, especially at the end of the month. The Organisation for Economic Co-operation and Development (OECD) predicted that the UK would grow at its fastest rate since the Second World War this year and next year. The OECD is forecasting growth of 7.2% this year and 5.5% in 2022, in contrast to a 9.8% contraction last year.

Business optimism was reported to be at a five year high, with the CBI saying that optimism over the future of the service sector increased at the fastest pace on record in the three months to May.

Car production, a tale of unremitting gloom last year, was also reported to have bounced back to near normal levels, with Nissan apparently in talks to build a huge electric car battery plant in the UK. The FT reported that Nissan wants the UK to be "its main hub outside Japan." There were even rumours of a Tesla factory, following CEO Elon Musk's two day visit to the UK.

House prices increased by 10.2% in the year to March, the highest annual growth for 14 years according to official figures. With Nationwide reporting that 'accidental savings' had seen an extra

£10.6bn added to them during the pandemic, it looks like we might be spending that money moving or improving. One slightly negative note was that inflation more than doubled to 1.5% in April.

The Government announced the setting up of a “Brexit Opportunities” unit, and looks set to offer Australia a tariff free deal, despite the concerns of farmers. Trade and investment deals worth £1bn with India were announced which, according to our newlywed PM, would “create 6,000 jobs.”

There was, therefore, plenty of positive news in May. The FTSE-100 index of leading shares took it all rather cautiously, gaining just 1% in the month to close at 7,023. The pound had a good month against the dollar, gaining 3% to finish May at \$1.4233.

Europe

We commented last month on the rise of the Green Party in Germany. With the elections due in late September they continue to lead in the opinion polls, with the very real possibility that the Green candidate, 40 year old Annalena Baerbock, could take over from Angela Merkel as Chancellor.

Should she win the election, one thing she, along with other EU leaders, will undoubtedly turn her attention to is the amount of tax paid by companies like Amazon.

Amazon reportedly did not pay any corporation tax in Europe last year. The firm, which has its European headquarters in Luxembourg, recorded a sales income of €44bn (£38bn) last year, but did not pay any tax having apparently made a loss of €1.2bn (£1.03bn). Amazon’s European unit was also granted €56m (£48m) in tax credits and has €2.7bn (£2.3bn) of carried forward losses ready to be used against any future profits.

A Green government in Germany would be set to commit to significant levels of spending, but it doesn’t look like Amazon will be contributing.

You may have heard about the shortage of specialised computer chips which is hampering car makers around the world. That hit home in May as Audi was forced to “idle” 10,000 staff for the second time this year due to the ongoing shortage. It has been suggested that the shortage of semiconductors will cost carmakers around the world more than \$100bn (£70bn) this year.

There was some good news as Greece announced that it was “putting the lockdown behind us” and opened up its tavernas and beaches to tourists. Not that the news boosted the Athens stock market, which was down 2% in May at 895.

Fortunately the major European stock markets did rather better. Germany’s DAX index was up 2% to close the month at 15,421. The French market went one further, rising 3% to finish May at 6,447.

US

It was snakes and ladders at the beginning of the month in the US. All the expectations were that the payroll data would see another 1 million jobs added as the US recovered from the pandemic and the Dow Jones index climbed to a record high. Until it went swiftly down the snake as the jobless figures came in well below expectations. Just 266,000 jobs were added in April, a month which saw the Government send \$1,400 (£1,000) cheques to most Americans, as the unemployment rate edged up to 6.1% with 9.8 million people remaining unemployed.

Worse followed when the Colonial Pipeline, which carries 45% of the East Coast’s supply of diesel, petrol and jet fuel, was put out of action by a ransomware attack. The hackers, an organisation called DarkSide, cheerfully acknowledged the attack and apologised to the public. “Our goal is to make money,” they said, “Not creating problems for society.” They appear to have succeeded in their goals, with reports emerging a few days later that the pipeline had paid a ransom of \$5m (£3.55m) to restore order.

Back to Amazon, another organisation that has met a few goals, even if it hasn’t paid much tax, announced that it was set to hire a further 75,000 people in the US and Canada and then went one

step further by agreeing to buy the historic MGM Studios for \$8.45bn (£6bn). This will give Amazon's streaming service access to a huge back catalogue, including all the James Bond movies and The Handmaid's Tale series. This came in the same month that AT&T and Discovery announced plans to create another "streaming giant."

The month ended with President Biden setting out spending plans for the trifling sum of \$6tn (£4.23tn) which were not surprisingly criticised by Republicans as "insanely expensive." The plans, which would mean steep tax rises for wealthier Americans, would include huge new social programmes and significant investment in the fight against climate change.

We have, in the past, brought you news of many tech startups in the US that have excessive valuations (at least by conventional measures). May perhaps brought the biggest example yet, with news that electric truck startup Rivian is planning a stock market debut that will see it valued at \$70bn (£49.3bn). How many trucks have so far rolled off Rivian's production line? That would be none.

The Dow Jones index, perhaps remembering those conventional measures, was up just 2% in the month to close May at 34,529. The more broadly based S&P 500 index was up 1% at 4,204.

Far East

May was an unusually quiet month for news in the Far East section of the Bulletin. As regular readers know, there are months when there are as many stories in this section as in, say, the UK or US sections.

The month started with good news for Chinese exports. As the US economy began to recover, and production in India stalled due to the pandemic, Chinese exports surged in April, up 32% from the previous year (admittedly during the Covid crisis) to almost \$264bn (£186bn). April also saw imports rise at their fastest rate in more than a decade, up 43% on the previous year.

The month ended with trade negotiators from the US and China holding "candid, pragmatic" talks to discuss the trade relationship between the two countries. Where did they meet? It was a virtual meeting, obviously. It's not just parish councils that use Zoom.

Long working hours have been much in the news lately, and in May a study was released by the World Health Organisation, suggesting that long working hours are killing "hundreds of thousands" of people a year. The WHO put the figure at 745,000 with anyone working more than 55 hours a week having a significantly increased risk of both strokes and heart disease. The report found that people living in South East Asia and the Western Pacific Region were the most affected. Some readers will remember a story from two years ago when Alibaba founder Jack Ma called for China to return to "996." Working from 9am to 9pm six days a week, a 72 hour working week.

May, otherwise, was a story of the Chinese government cracking down. Shares in food delivery giant Meituan fell sharply after its billionaire CEO Wang Xing posted a thousand year old poem online. The Book Burning Pit was widely seen as a criticism of Xi Jinping and his government, with the company one of many under investigation, like Alibaba last month, for abusing a dominant position in a particular market.

May was a very bad month for the cryptocurrency Bitcoin, which was down 37% for the month as a whole. It fell 10% after carmaker Tesla said it would no longer accept it as payment, a position which worsened significantly when the Chinese government banned banks and payment firms from providing services related to cryptocurrency transactions. It also warned investors against speculative trading in cryptocurrencies.

Fortunately there were no 37% falls on Far Eastern stock markets during the month. China led the way, the Shanghai Composite index rising 5% in the month to close at 3,615. The markets in both Hong Kong and South Korea rose 2%, to end May at 29,144 and 3,204 respectively. Japan's Nikkei Down index was unchanged in percentage terms, closing the month at 28,860.

Emerging Markets

April was, of course, dominated by the surge in Covid cases in India. Mercifully the rate of infection appeared to be slowing in May, although that did not stop calls from opposition parties for a full national lockdown, something Prime Minister Nerendra Modi resisted due to the economic impact.

We have written previously about tensions between India and China, and the misgivings many countries have had about Chinese companies being involved in their 5G networks. It was therefore no surprise to see India's telecoms ministry leave Chinese companies Huawei and ZTE out of its 5G network trials. The ministry granted permission to a dozen firms, but the Chinese companies were notable absentees.

All the three major stock markets we cover in this section had good months in May. Perhaps in response to Nerendra Modi's controversial decision the Indian market rose 6% to close at 51,937. The Brazilian market was up by the same amount to end the month at 126,216 while the Russian market did only slightly less well, finishing the month up 5% at 3,722.

And finally...

May wasn't a vintage month for the "And finally..." section of the commentary, although a herd of cows in Nuneaton gave it their best shot. Trains were unable to moo-ve (sorry) through the station as the herd of cows trotted through just before 11am one day. Sadly we have no information on which platform they arrived at or, indeed, whether they were on time. Network Rail duly halted trains while the cattle sauntered out of the station, and confirmed that they had spoken to a local farmer...

Regular readers will know of a rather larger traffic jam that we reported on recently. The giant container ship Ever Given blocked the Suez Canal and was, along with the pandemic, duly blamed for the UK facing shortages of pet food pouches and garden gnomes among other essentials.

Now we bring you news of a real essential. The UK and Ireland are apparently facing a shortage of Cadbury's chocolate flakes this summer, due to a surge in demand. This would mean a summer without a '99 for ice cream lovers. Sundry chocolate bars were suggested as alternatives on social media, but surely there are some traditions that simply cannot be tampered with?

Sources: <https://informedfinancialplanning.co.uk/wp-content/uploads/2021/06/June-Market-Sources.pdf>