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# August 2021 Market Update

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As everyone expected, July saw the G20 endorse the plan from the G7 meeting in Cornwall to set a minimum global rate of corporation tax.

A headline in City AM proclaimed that US tech giants could face a $28bn (£20bn) tax bill, with suggestions that the tax could raise as much as $87bn (£63bn). We report below on the profits the tech giants made in the second quarter of the year. If the current trend continues they could soon be filing paltry amounts like £20bn under petty cash.

July was, of course, the month in which the UK declared "Freedom Day,'" with most Covid restrictions being eased or lifted on July 19th. It is fair to say that the decision wasn't universally welcomed, with scientists around the world condemning it and competing for the most alarming descriptions of what might happen. Many businesses, obviously, took a different view and rushed to re-open, assuming they could find the staff…

In foreign news Chinese leader Xi Jinping used a speech celebrating the 100th anniversary of the Chinese Communist Party to warn that China would not allow itself to be bullied by foreign powers, one can assume that refers to the US. In splendidly undiplomatic language, Xi warned that foreign powers "will get their heads bashed" if they try to influence the country.

Sadly, it was the Chinese stock market that got bashed in July. Overall it was not a good month for world stock markets with continuing worries about Covid but, as we outline below, the Chinese and Hong Kong markets were particularly hit by the actions of the Chinese regulators.

### UK

Inflation hasn't been a word that has featured much in our market commentary of late but, with the UK economy recovering from the pandemic, there are fears of inflation starting to increase significantly. The Bank of England's departing chief economist Andy Haldane has warned that inflation is "rising fast" and could reach nearly 4% this year. That is well above the Bank's target rate of 2% (which was exceeded in May, when inflation reached 2.1%).

Rising inflation would increase the cost of index-linked gilts and in turn increase the cost of servicing the debt the government has built up during the pandemic. Interest payments on Government debt jumped to £8.7bn in June.

The figures for May showed that the UK economy grew more slowly than expected, only up by 0.8% in the month, leaving the economy still 3.1% below pre-pandemic levels according to the Office for National Statistics.

Aside from that, though, there was plenty of good news to report in June. Nissan announced a £1bn investment and major expansion of electric vehicle production at its car plant in Sunderland. This will create 1,650 jobs plus thousands more in the local supply chain. On top of this, in what was an excellent month for the North East, planning approval was granted for Britishvolt's gigafactory in Blyth, Northumberland. Eventually it should produce enough lithium-ion batteries for 300,000 electric cars. It is expected that this will create another 3,000 jobs, plus those in the supply chain.

Business confidence was up to its highest level since 2005. Consumer confidence was also up as the economy rebounded and the housing market remained strong as buyers were, according to one report, "seeking more space." A report in City AM revealed that UK fintech firms had raised $5.7bn (£4.1bn) in a record breaking year.

Despite all this, the UK will clearly be paying for the pandemic for years to come. It also appears that the only way the bill will eventually be paid is with a vibrant and thriving economy. Encouragingly, there were yet more forecasts of increased growth for the UK. The EY Item Club predicted that the economy would grow by 7.6% this year (the fastest pace since 1941) and by 6.8%

in 2022. The International Monetary Fund wasn't quite so optimistic, forecasting growth of 7%, the joint-fastest of the G7 countries.

Inevitably, though, the news was not all good, with thousands of firms reporting staff shortages as the "pingdemic" forced workers to stay at home and self-isolate. The meat industry reported that food supply was on the edge of failing.

The Euros fuelled a surge in spending in the hospitality sector, and UK retail duly posted its strongest quarter on record, with sales in the second quarter of the year up 28.4% on the previous quarter. The number of shoppers in high streets and retail parks rose to its highest level since the pandemic started. That said, it is still behind pre-pandemic levels and one in seven shops remains vacant.

Even more worryingly, small shops are said to be struggling under a £1.7bn mountain of debt with high street businesses now owing four times the amount they owed a year ago.

It is not just retail that has been badly hit by lockdown, data generated by Oxford Economics suggested that the pandemic and subsequent lockdowns has cost businesses in the creative sector an estimated £12bn in revenue and 110,000 jobs.

It all added up to a month where the FTSE-100 index of leading shares barely moved. It ended July down just five points at 7,032. The pound rose by 1% against the dollar in the month and closed July at $1.3902.

## Europe

July was a relatively quiet month for European news, with the most significant development coming right at the end of the month.

Figures showed that the Eurozone economy had grown by 2% in the three months to June, bringing the 19 nation bloc out of the double-dip recession it had suffered in the previous two quarters.

Although the Eurozone is still below the pre-pandemic level of late 2019, the second quarter saw growth in all the individual national economies. Spain and Italy, two countries badly hit by the pandemic, saw growth approaching 3%, while Portugal reported that its economy had grown by 4.9% as tourism finally picked up again.

The improved figures from Portugal could, perhaps, have been predicted at the beginning of the month, when Ryanair reported traffic numbers had climbed from 1.8m in May to 5.3m in June ,compared to just 0.4m in June 2020.

With leaders at the G7 and G20 meetings having agreed plans for a global minimum level of corporation tax, the EU announced that it would suspend its plans to tax the tech giants. However, this did not stop Luxembourg's data protection regulator imposing a hefty fine of €746m (£637m) on Amazon, claiming that its processing of personal data did not comply with EU law. Amazon said that it would contest the fine, but saw its shares drop by more than 6% on the news.

In a month where growth was hard to find on world stock markets Europe's two major markets fared better than most. The German index was unchanged in percentage terms, up just 13 points at 15,544 but the French market was up 2%, to close July at 6,613.

## US

If July was a quiet month for news in Europe, it was the exact opposite in the US.

The month started with both good news and bad news. Good news in that the US economy added 850,000 jobs in June as the economy re-opened, with the news sending the stock market to a record high. Bad news in that 200 US companies were hit by what was described as a "colossal" ransomware attack. The finger was duly pointed at the Russia-linked REvil ransomware organisation. There was more of the same later in the month when the US accused China of being behind an attack on Microsoft's exchange servers.

We mentioned worries about inflation in the UK section above and the same is true in the US. Consumer prices jumped 5.4% in the 12 months to June as the cost of used cars and food increased. That was up from 5% the previous month and makes the biggest 12-month increase since August 2008.

With consumer spending, fuelled in part by the government's fiscal stimulus, surging in June to take it above pre-pandemic levels, inflation is unlikely to fall in the near future.

In the middle of the month President Biden signed an executive order cracking down on Big Tech, saying that "capitalism without competition is exploitation" and calling for tougher scrutiny of the tech giants.

…And at the end of the month Big Tech noted what the President had said and reported bumper profits in the three months to June 30th as the lockdown boom continued. To give just two examples, Apple's profits nearly doubled to $21.7bn (£15.6bn) in the three month period: Microsoft's profits for the same period were $16.5bn (£11.8bn), up 47% year-on-year as demand for games and cloud services increased. One analyst described the figures from the Big Tech companies as "absolutely stunning."

At the end of the month the Federal Reserve declared that the US economy was "making progress" as it opted to keep interests near to zero. Jobs growth and the economy had strengthened but, warned the Fed, "risks to the economic outlook remain."

Wall Street, however, was siding with Big Tech rather than the Fed's caution. The Dow Jones index rose 1% in the month to close at 34,935 while the more broadly based S&P 500 index was up 2% to 4,395.

## Far East

Looking through my notes for the Far East section, this month can be summarised in one word: regulators. As we will see below, both the Chinese and Hong Kong markets suffered sharp falls in the month; sudden crackdowns by the regulatory authorities in Beijing had much to do with it.

Last month we reported that China's ride-hailing app, Didi, duly floated on the US stock market and ended its first day with a valuation of £68.5bn (£49.6bn), the biggest flotation by a Chinese company in the US since Alibaba.

July had barely started before China's internet regulator ordered app stores to stop offering Didi's app, saying that the firm had illegally collected users' personal data. Didi warned that this would have "an adverse impact on revenues" and the share price fell by 20%. A lawsuit from US investors, claiming that the company had failed to disclose discussions with the regulators, swiftly followed.

Shares in TenCent also fell later in the month as the regulators ordered the company to end exclusive licensing deals. The regulator was trying to tackle the company's dominance of online music streaming in China. There were also suggestions that firms wanting to list on foreign stock markets will face greater scrutiny, especially if they have data on more than a million users.

Unsurprisingly all the Chinese stocks in the US were down on these moves by the authorities. The Nasdaq Golden Dragon Index, which follows the 98 biggest US-listed Chinese stocks, is down 45% since reaching a record high in February of this year.

More generally, it appeared that China's post-pandemic boom could be losing steam. Gross Domestic Product (GDP) increased by 7.9% in the second quarter, compared to the same quarter in 2020. This was less than half the rate seen in the first quarter and below economists' predictions of 8.1% growth.

There were no such problems for Samsung, which said it expects quarterly profits to rise 53% as the global chip shortage continues. The company forecast operating profits of $11bn (£8bn) for the three months ending in June.

But with the regulators' crackdowns and with the US warning companies against doing business in both Xinjiang province and in Hong Kong, it all added up to a gloomy month for Far Eastern stock markets. Hong Kong's Hang Seng index was down 10% at 25,908 while China's Shanghai Composite index was down 5% at 3,397. The Japanese index was also down 5% to end the month at 27,284 while the South Korean index fell by 3% to 3,202.

## Emerging Markets

Most readers of the Bulletin will be familiar with Deliveroo. July saw the stock market debut of the Indian equivalent, Zomato.

Shares in the food-delivery app surged 66% when they floated on the Indian stock market, with investors showing a healthy appetite (sorry) for internet start-ups that had performed well during the pandemic. Inevitably the company is still making a loss, as some analysts churlishly pointed out, but as you will know if you've read previous market commentaries, that no longer seems to matter with stock market valuations.

Sadly, the major emerging markets we cover in the Bulletin didn't fare anywhere near as well as Zomato. The Brazilian market was down 4%, closing the month at 121,801 while the Russian market declined 2% to finish July at 3,772. The Indian stock market was unchanged in percentage terms, rising just 104 points to 52,587, within touching distance of its all-time high of 53,290.

## And finally…

2021 has been a tale of shortages, ranging from garden furniture and garden gnomes to rather more essential items. July brought the news that the UK could now be rocked by a shortage of Haribos, with the German company saying it is short of lorry drivers to deliver the sweets to UK wholesalers.

Less concerned with Haribos were the football fans expected to drink nine million pints of beer before England's Euros semi-final with Denmark. With a similar amount presumably drunk before the final at least beer was coming home in July, even if football didn't quite make it…

Many clients may recall their PE lessons at school with something akin to horror, not least the dreaded burpees. Our Hero of the Month for July was Brazilian mixed martial arts fighter Cassiano Laureano, who set a new world record for the most burpees performed in an hour. Mr Laureano – who lives in Singapore – casually knocked out 951 burpees – around 16 a minute. We expect he then declared himself too tired for double Physics.

We leave you this month with news of a product that is "bouncing back" in style. As lockdown eases and more of us eat out, we are apparently finally caring what we look like and sales of stain remover Vanish have rocketed. Presumably tomato sauce stains on your shirt were acceptable during lockdown, but not as the economy opens up.

Or maybe I missed something. Along with garden furniture, garden gnomes and Haribos, could there be a shortage of napkins?

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**Sources:** https://informedfinancialplanning.co.uk/wp-content/uploads/2021/08/August-Market-Sources.pdf