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July 2021 Market Update

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“Amazon made millions but paid no tax.” You can substitute Facebook or Google for Amazon and, these days, you can probably substitute “billions” for “millions” but it remains a story we’ve told countless times. One of the tech giants has reported bumper revenues and/or profits and while doing so paid less tax than a moderately successful small business.

Perhaps June 2021 was the month when that finally started to change, with the G7 meeting in Cornwall agreeing plans for a minimum global level of corporation tax. There remains plenty of talking to be done and a similar agreement with the G20 (which includes Russia and China) will almost certainly be needed, but the first step has perhaps been taken.

Away from the G7 summit, June was another month where countries seemed to be on and off the UK’s “green list” on an almost daily basis. With another surge in Covid infections among Scottish fans who attended the recent game at Wembley and more big crowds due at the final games in Euro 2020, with Wimbledon going on at the same time, another spike in infections cannot be ruled out.

Will that prompt more companies to demand proof of vaccination before they allow staff to return to the office? Morgan Stanley was one of several household names to suggest that unvaccinated staff wouldn’t be welcomed in “the great return.”

June was a relatively quiet month on the world’s stock markets. Two markets in the Far East were down, but only slightly. The rest of the markets we cover made small gains or finished the month at roughly the same levels as they had ended May. As always, let’s look at all the facts and figures in more detail...

UK

Of late, it has generally been mixed news for the UK economy with a fairly equal split between good and bad news being the norm. June though, was a month when good news was in the ascendancy. The glass wasn’t half full: it was full - and at times in danger of overflowing.

The month started with the Organisation for Economic Co-operation and Development (OECD) forecasting that the UK economy would grow by 7.2% this year, and by 5.5% next year. By the middle of the month the CBI had upped the ante by 1%, suggesting that the economy will grow by 8.2% this year, and be back to its pre-Covid level by December.

Manufacturing growth was reported to be at a 30 year high and more than 150,000 new cars were sold in May, up eight times on May 2020 when, of course, showrooms were closed due to lockdown.

The UK signed a trade deal with Norway and Iceland, agreed “the broad terms” of a deal with Australia and is reported to be looking to conclude a deal with New Zealand by the end of August. Talks have also opened on the UK becoming a member of the CPTPP - the Pacific trading bloc which takes in 11 countries including Canada, Japan, Mexico and Singapore.

As you’ll no doubt be aware, the so-called “Freedom Day” has been pushed back to July 19th: despite this, consumer confidence remains resilient. The Institute of Directors reported that confidence among business leaders was at its highest since the Brexit vote, with the CBI reporting that the private sector was growing at its fastest pace since 2015.

If there was a cloud on the horizon, then it came in the form of worries about inflation. While we can joke about garden gnome shortages in the ‘And finally...’ section, there is a serious side to it. A surge in factory prices as firms struggled to source raw materials showed input costs rising at their fastest rate for 13 years, with the Bank of England expecting inflation to overshoot its target and hit 3%

There was less good news on the nation’s high streets as well: according to a KPMG survey demand for workers in May rose at its fastest rate for 23 years - but the number of staff available to fill those jobs declined at the steepest rate since 2017. McDonald’s was just one example, saying that

it wanted to open 50 new restaurants and create 20,000 jobs - but with boss Paul Pomroy saying “it is getting harder and harder to recruit.”

Where does that leave Nissan? The company ended the month with some really good news for the UK economy, announcing that it would create “thousands of jobs” with a major expansion of its battery plant in the North East. Let’s hope they can find the staff...

Despite the news being overwhelmingly good in June the FT-SE 100 index of leading shares was in a rather more cautious mood, rising by just 14 points in the month to close at 7,037. The pound fell by 3% against the US dollar, and ended June trading at \$1.3805.

Europe

June was a relatively quiet month for European news. We have mentioned worries about inflation in the UK section, and it was the same story in Europe.

The BBC reported at the beginning of the month that Eurozone inflation had risen sharply in May to reach 2%, just below the European Central Bank’s target. Prices were pushed higher by a strong rise in energy prices, which pushed inflation to its highest level since October 2018.

With economic activity increasing as Covid restrictions are scaled back, inflation could emerge as a serious problem through the rest of this year.

Apple was the latest of the tech giants to come under investigation by the German regulators, with the Federal Cartel Office worried that Apple’s iOS system gave it undue influence “across several markets.” Apple said it looked forward to having an open dialogue with the FCO.

One market where Europe definitely would like “undue influence” is the car battery market. By 2030 40% of all new cars sold are forecast to be electric, rising to 100% by 2040. The latest gigafactory is being built 125 miles south of the Arctic circle in Sweden on a site as big as 71 football pitches.

Both the leading European stock markets had relatively uneventful months. The German and French markets were both up by 1%, closing June at 15,531 and 6,508 respectively.

US

We have just commented on the European economy gradually re-opening and clearly the same is true in the US. Despite this, the US economy added fewer jobs than had been expected in May. Analysts had been forecasting a figure in the region of 675,000: in the event employers created 559,000 jobs, although this was still enough to bring the unemployment rate down to 5.8% from the 6.1% seen in April.

Despite the relatively modest increase, President Biden described the figures as “great news,” and went on to expand the investment ban on Chinese firms, stopping Americans from investing in dozens of Chinese firms with alleged military ties. That done, he promptly reversed Donald Trump’s ban on Tik-Tok.

As we mentioned in the introduction, the debate on compulsory vaccinations is only going to intensify: Goldman Sachs has ordered its staff to disclose their vaccination status, while - according to an internal memo reported by the FT - Morgan Stanley will ban unvaccinated staff from entering its New York office. Unsurprisingly the Federal Reserve said that the future direction of the US economy would depend “significantly” on the course of the virus.

One company where the path remains steadily upwards is Facebook, which ended June with a \$1tn (£724bn) valuation for the first time. The Dow Jones index wasn’t much impressed though, and ended the month unchanged in percentage terms, down just 26 points at 34,503. The more broadly based S&P 500 index fared better and was up 2% at 4,301.

Far East

We have mentioned the G7 meeting above: one of the products of the meeting was an agreement between the UK and the US for closer ties in science and technological innovation in the face of growing competition from China.

This is almost certainly not good news for Huawei - a regular feature in this section - which saw revenue for its UK subsidiary slump 27.5% in 2020 to £913m, with pre-tax profits down from £48m to £36.5m.

Many readers will be familiar with China's notorious "one child policy" which was in force until late 2015. The move to two children in early 2016 failed to produce a sustained increase in birth rates, and June began with a major shift in policy as Xi Jinping confirmed that couples would now be allowed to have three children. The cost of raising children in Chinese cities has - so far - deterred many couples from having more than one child.

China's moves against the pro-democracy movement in Hong Kong continued, as the pro-democracy newspaper Apple Daily was forced to close after 26 years. Regulators also had Bitcoin in their sights, ordering banks not to support digital currency transactions and sending the virtual currency below \$30,000 (£21,744).

China's ride-hailing app Didi duly floated on the US stock exchange 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. And what of Jack Ma, Alibaba's co-founder and China's most high-profile entrepreneur? He was reported to be "lying low," having once again fallen foul of those Chinese regulators. "He has taken up painting as a hobby," said his co-founder.

On the region's stock markets China's Shanghai Composite index did its best to lie low, ending the month down 1% at 3,591. The Hong Kong market was down by a similar percentage to 28,812, while Japan's Nikkei Dow index was down just 68 points at 28,792. In contrast the South Korean index had a good month, rising 3% to close June at 3,297.

Emerging Markets

There were some interesting snippets of news from emerging economies around the world. Australia's economy continued its rapid rebound: boosted by soaring demand for commodities it grew 1.8% in the first quarter of the year, and GDP is now bigger than it was before the pandemic.

If Australia was rooted in the old economy El Salvador was firmly in the new, announcing that it would accept Bitcoin as legal tender. However the World Bank refused to help the country implement the move, citing concerns over transparency and the environmental impact of Bitcoin mining.

Sadly Brazil passed 500,000 Covid deaths, and in Russia a court banned political organisations linked to jailed Kremlin critic Alexei Navalny, classifying them as "extremist."

June was a good month for the Russian stock market, which was up 3% in the month to close at 3,842. The Indian market was also up - albeit by only 1% - closing at 52,483 while the Brazilian stock market was unchanged in percentage terms, ending the month at 126,802.

And finally...

Are you a fan of beefburgers? Then it was a real good news/bad news start to the month for you.

June opened with the news that Kraft Heinz is to invest £140m that will allow tomato ketchup - along with mayonnaise and salad cream - to once again be made in the UK. Clearly it wasn't just football that was 'coming home' in June... But a day later came the bad news. JBS, the world's largest meat supplier, became the latest company to be hit by a sophisticated ransomware attack. Anxious burger-lovers (and the FBI) quickly pointed the finger at criminal gangs in Russia. The future of barbecues remains unknown.

The year has seen a steady stream of shortages reported in this section of the Bulletin, ranging from pet food pouches to garden gnomes to chocolate flakes. Now it appears that however long July's predicted heatwave lasts we won't be able to enjoy it, thanks to the latest shortage - garden furniture. Richard, an interviewee, told the BBC he was "very upset" that his corner sofa, glass top table and three stools were in a shipping container somewhere, and not in his back garden.

Let's hope Richard wasn't looking forward to a burger at his new glass top table, too.

An unnamed millionaire (possibly billionaire) is also hoping for a purchase of theirs to prove worth it. They paid \$28m (£20.3m) for a seat on Amazon founder Jeff Bezos's first crewed spaceflight by his Blue Origin company. The winning bid was made at an auction, with the winner joining Mr Bezos and his brother on the spaceflight. Here's hoping it goes well.

"My holiday? Not bad, I suppose. Spacecraft was three weeks late taking off - weather or something - and I was stuck in a compartment with a bloke who just talked about how little tax his company paid. View was alright, though.'

Sources: <https://informedfinancialplanning.co.uk/wp-content/uploads/2021/08/July-Market-Sources.pdf>