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Economic & Market review – July 2021

Developed market equities gained in July but emerging markets saw a sharp decline as China announced new regulations for the education sector. Government bond yields declined as concerns over the Covid-19 Delta variant and some signs of global growth moderating caused investors to shift toward safer investments.

US equities ended July higher despite contending with intermittent volatility. Fears over Covid-19 cases - in the US and globally - called into question the sustainability of economic momentum. In addition, the Chinese government intensified its focus on regulation, particularly in the tech and private education sectors, which introduced further uncertainty. However, both factors were ultimately overshadowed by the strong earnings season and equities rose.

China's ongoing drive to assess and control the societal influence of large companies hit the New York-listed shares of ride-hailing app Didi hard in early July. The broader implications of the tighter regulatory scrutiny sent ripples through US equity markets that unsettled investors. Adding to these concerns was the rise in cases of the Delta variant of Covid-19.

Earnings for Q2 emerged as the most influential factor. The proportion of US companies beating earnings estimates for Q2 was far ahead of the five-year average.

The energy sector was notably weaker in July, with worries over excess capacity adding to growth concerns. Most other areas made progress. Healthcare, real estate and utilities were among the strongest sectors.

Eurozone equities notched up gains in July. Top performing sectors included information technology, real estate and materials. The energy sector was the main laggard. July saw the start of the Q2 earnings season which has overall been very strong.

Meanwhile, the vaccine roll-out accelerated with Spain, Italy and Germany all overtaking the US in terms of the share of people fully vaccinated against Covid-19. This boosted hopes that rising cases of the Delta variant would not necessarily lead to further lockdowns and restrictions on economic activity.

Eurostat data showed eurozone GDP grew by 2.2% in Q2, after a 0.3% decline in Q1, while annual inflation ticked up to 2.2% in July versus 1.9% in June. The European Central Bank concluded its strategic review, setting its inflation target to 2%.