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Economic & Market review – June 2021

The second quarter was strong for US equities, and indeed the S&P 500 reached a new all-time high in late June. Almost all sectors made gains over the quarter.

The Federal Reserve's rate-setting meeting brought no change to policy but its projections indicated that interest rate rises could come in 2023. This seemed to wrong-foot some market participants, though subsequent comments by Fed officials sought to allay any worries over tightening monetary policy too quickly.

Overall, the economic picture remained rosy. Q1 GDP grew at 6.4% (quarter-on-quarter, annualised), which was modestly lower than the consensus of 6.7%. Growth in consumption was especially strong. Industrial activity as measured by US composite purchasing managers' index moved from 59.7 in March, to a composite reading of 63.9 in June.

Inflation data, unsurprisingly, received a lot of attention. In May, core consumer price index (CPI) inflation rose from 3% to 3.8% year-on-year.

In late June President Joe Biden also secured a deal on an infrastructure package worth about $1 trillion to upgrade roads, bridges and broadband networks over the next eight years. The agreement fell short of the $2.3 trillion infrastructure spending plan announced in March, and did not address the social safety-net spending proposed in April.

Tech giants like Apple, Alphabet and Microsoft made strong gains over the quarter. By sector, energy, IT, communication services and real estate were amongst the strongest areas of the market. Utilities and consumer staples lagged.

Eurozone shares gained in the quarter, supported by a strong corporate earnings season and an acceleration in the pace of vaccine roll-out in the region. Many European countries saw Covid-19 infections fall over the quarter and were able to loosen restrictions on social and economic activity.

Rotations in the market between growth and value areas saw a mixed group of sectors lead the gains. The top performing sectors included defensive areas such as consumer staples and real estate, which had lagged in Q1 as investors focused on more economically-sensitive areas of the market. However, information technology was also among the top gainers in Q2, while utilities and energy were laggards.

Eurozone inflation was estimated at 1.9% in June, down from 2.0% in May. The European Commission signed off on the first of the national recovery plans which will receive funding from the €800 billion Next Generation EU fund. Spain and Portugal were the first countries to have their spending plans approved.