Economic & Market review – October 2021

Global stock markets gained in October, supported by encouraging corporate earnings and an easing of fears around China's property sector.

Government bond yields broadly rose as central banks indicated they were prepared to withdraw monetary policy accommodation in light of rising inflationary pressures.

Commodities gained with the energy component performing strongly.

US equities gained in October. Earnings releases were generally strong setting a positive tone. Economic data indicated a marked slowdown in activity. In Q3, US GDP growth was the slowest in over a year at an annualised 2.0% quarter-on-quarter, down from 6.7% in Q2. But data also suggested that consumer confidence is very high. Supply chain disruption and consequent shortages of big-ticket items such as vehicles appears to have curtailed spending more than a fall in demand.

The economic releases did not dissuade the Federal Reserve (Fed) from its plans to taper quantitative easing to a full stop by mid-next year. Elevated inflation figures are still held by the central bank to be transitory.

Some of the strongest returns in the month came from the consumer discretionary and energy sectors. Gains in the consumer staples and communication service sectors, while positive, were more muted.

Eurozone shares posted gains in October. The Q3 corporate earnings began in the month and showed ongoing evidence of strong demand, although cost pressures are also beginning to be felt. The top performing sectors included utilities, IT and consumer discretionary. Underperforming sectors included communication services and real estate.

The month brought soaring power prices amid shortages of natural gas. However, prices declined towards month end after Russian President Putin called for Gazprom to start filling European storage facilities.

Euro area annual inflation was estimated at 4.1% for October, up from 3.4% in September. However, the European Central Bank (ECB) reiterated that it expects the current spike in inflation to prove transitory. Meanwhile, Q3 GDP growth was 2.2%, compared to 2.1% in Q2.

In Germany, talks continued over the formation of the next governing coalition. It will likely comprise social democrats, greens and liberals and be led by Olaf Scholz, the current finance minister.