9-Month Market Review

(as at September 30, 2021)

Overview

The global economic recovery remains broadly on track, though many unsettling concerns linger on. Policymaking in the US, in regard to the pandemic, for example, remains extremely politicised, and a chaotic withdrawal of US forces from Afghanistan did little to quell geopolitical tension.

Despite these issues, current forecasts for global economic growth persist with the OECD expecting that, by the end of 2022, the G20 group of countries will return to pre-pandemic output and unemployment levels.

Inflation, though, is well above the target rates of the world's major central banks. Energy prices are surging and, as the *Financial Times* reports, shipping costs have risen almost fivefold since the start of 2019. In response, both the US Federal Reserve and the Bank of England indicated that they may tighten policies (i.e., raise interest rates) sooner than they had expected.

The threat of a winding down of central bank support and the troubling discovery of a possible default of a major Chinese real-estate company, tempered stock market gains for the last quarter.

EQUITIES

The major stock market indices lost ground in September, surrendering some gains made earlier in the third quarter. This was by no means a rout, and stocks are still well up on the year. The MSCI World Index gained 11% since the beginning of 2021, with the S&P 500 Index of US stocks and the Bloomberg European 500 Index both registering gains in excess of 15% since January 1.

Considerable government and central bank support for the stock market has long endured but there are also company- and sector-specific factors at play for which the pandemic has acted as a catalyst. Sectors such as consumer technology, media and retail are undergoing radical transformation. Even dull sectors, such as banking, have moved away from a model that relies on branches and retail outlets to favour customer transactions using smartphones.

Companies across the globe have actively taken advantage of the strength of their share prices, issuing more than $1 trillion worth of shares sales this year.

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BONDS

Bond issuance has been even more active. Companies have capitalised high demand in the global fixed income market by issuing nearly $4 trillion worth of fresh debt this year.

Due to the current low interest rate environment, bonds pay a meagre investment yield. And in Europe, the yield of the German 10-year government bond is indeed negative.

Furthermore, valuations seem particularly strained given the risk that inflation may prove more stubborn than policymakers expect. Reflecting these concerns, the Barclays Multiverse Index, which tracks the prices of global bonds, has declined by 4% since the start of the year.

As interest rates rise further and faster, choppy waters could continue in the bond market, if policymakers fail to get inflation under control.

OUTLOOK

Time will tell how inflation evolves over the coming months. However, the immediate attention of global markets is on the world's two largest economies: The United States and China. In the US, investors are looking to see whether Congress will increase the debt limit so that the federal government can make good on its commitments beyond December. The last time this game of political chicken played out, it resulted in a downgrade of US Treasury debt – something once thought impossible.

Meanwhile, in China, all eyes are on real-estate developer *China Evergrande Group*, which is now in a 30-day grace period, having failed to make two scheduled coupon payments on their bonds worth a total of $131 million. The company has sum liabilities of around $300 billion, and alarmingly, $37 billion of this is due within a year. The issue is now whether the Chinese government will bail *Evergrande* out or allow it to default, possibly spreading contagion throughout the global economy and financial system. Any restructuring of the group, however, is likely to shed light on troubling developments of a growing authoritarianism in China, which has the potential to subdue investor sentiment towards global markets.

Since we, as investors, have no control over how these events will unfold, it makes sense to focus on what we can control. As the year closes, we encourage you to take a few minutes to ensure you are in the most appropriate Fund/strategy based on your investor profile. You can obtain immediate feedback on this by taking our two-minute investor questionnaire, located here.

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