INFORMATION FOR INVESTMENT PROFESSIONALS

COLUMBIA THREADNEEDLE INVESTMENTS

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Market updates

Investment team updates | 19 November 2021

Fixed income

News

- At the start of the week, President Biden signed into law the $1.2 trillion infrastructure package. He is also set to announce a new US Federal Reserve Chief, which is expected to be either incumbent Jerome Powell or Fed Governor Lael Brainard, before Thanksgiving.
- Also in the US, housing starts were below expectations in October, but building permits were higher. Retail sales, meanwhile, rose 1.7% in October, as did industrial production which was up 1.6% following a stronger than expected employment report.
- In Europe, UK retail sales volumes rose 0.8% month-on-month in October, against an expected 0.5%. It also showed a strong (post-furlough) employment report, adding 160,000 jobs, with the unemployment rate for October falling to 4.3%. CPI inflation, meanwhile, rose to 4.2% in October, which is higher than September and ahead of expectations (and the Bank of England target of 2%).
- Also in the UK, the Labour party moved ahead of the Conservatives in polls following a week of sleaze allegations.
- In the eurozone, car registrations fell by 30.3% year-on-year in October. In Russia, meanwhile, tensions continue to rise over Ukraine. The US and allies are performing Black Sea drilling near Russian waterways as a show of force,
- In Japan, CPI came in at 0.1% year-on-year in October – led higher by energy prices but offset by phone tariffs. Meanwhile, a Y79 trillion stimulus package is expected to be announced soon.

Markets

- In government bonds the US 10-year treasury yield started the week (15 November) at 1.62% and weakened slightly over the week to 1.59% (18 November). Germany started and finished the week at -0.23% and -0.28% respectively, with UK gilts shifting from 0.96% to 0.92%.
- Credit markets, based on BofA Merrill Lynch Bond Indices, weakened slightly over the week. Global IG started the week (15 November) at 95bps and ended it (18 November) at 98bps, while Global HY followed suit (from 385bps to 398bps).
- Oil moved lower over the first half of the week on fears of a US release of strategic reserves, but ended it higher at $79.7 a barrel.
- In FX, the Euro was around 1.13 versus the US dollar all week, but bear in mind it was trading at 1.225 at the end of last year.

European equities

- European markets have been strong, helped by good results. However the oil price has also been boosted, particularly by the tense relations with Russia, which is increasing inflation, meaning interest rate rises may follow in some markets.
- European politics seems reasonably stable – the likely coalition in Germany should be market-friendly and cause few issues. The French polls favour a Macron victory next year, but the field is fairly open at this early stage.
- Brexit remains and issue, with Northern Ireland the major focus, but so far this appears to have little market impact.
- A surge in Covid-19 cases has caused fears of further lockdowns, and the unvaccinated are seeing more restrictions placed upon them, for example in Austria and Italy.

Responsible investment

- Last week marked the end of COP26, the United Nations Climate Change conference in Glasgow, and a huge number of headlines have since been published, showing a mixed public message. Here are our key takeaways from the summit:
- While the final text waters down many initial areas of agreement, the content is still there. Importantly, countries have been asked to come back to the table with enhanced pledges aligned with 1.5 degrees in 2022, instead of the usual five-year cycle. This is what could keep 1.5 degrees alive.
- COP26 changed the focus of these meetings – from 2 degrees and 2050 to 1.5 degrees and 2030. This aligns political discussions with the scientific evidence.
- The private sector has stepped up. When considering all pledges, net-zero targets and other commitments not currently in policy, if met these could cap temperature rises at 1.8 degrees. This was unthinkable a few weeks ago.
- Rules on international carbon trading have been established. However, loopholes remain so caution will be needed.
- On balance, we think there has been a huge amount of progress – more than many on the inside expected. But civil society remains unconvinced. It is clear how much pressure governments will be under to deliver on the pledges, and companies will face reputational risk if they attempt to fudge their net-zero plans.
- Look out for our upcoming round up of COP26 takeaways.

Note: all data as at 18 November 2021, unless otherwise specified. Source: Bloomberg.

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