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Markets in a Minute

7 December 2021

Stocks volatile as Omicron spreads and inflation soars

Stocks posted mixed results last week as investors feared the spread of the Omicron variant could lead to a slowdown in global economic growth.

In the US, the S&P 500, Dow and Nasdaq fell 1.2%, 0.9% and 2.6%, respectively, on news the Federal Reserve might consider tapering its bond purchases at a faster rate.

The pan-European STOXX 600 eased 0.3% after figures showed inflation in the eurozone rose to a record high in November. In Germany, where inflation soared to its highest level since 1992, the Dax lost 0.6%. In contrast, the UK's FTSE 100 added 1.1% on speculation the Bank of England will hold off on raising interest rates this month because of the uncertainty created by Omicron.

Over in Asia, Japan's Nikkei 225 shed 2.5% after the country closed its borders to foreign nationals in a bid to stem the spread of the new variant.

Last week's market performance*

- FTSE 100: +1.11%
- S&P 500: -1.22%
- Dow: -0.91%
- Nasdaq: -2.62%
- Dax: -0.57%
- Hang Seng: -1.30%
- Shanghai Composite: +1.22%
- Nikkei: -2.51%

* Data from close on Friday 26 November to close of business on Friday 3 December.

Omicron fears subside on Monday

Major indices started this week on a stronger footing after early data from South Africa suggested the Omicron variant may cause less severe cases of Covid-19. Experts urged caution against reading too much into the early reports, but the news helped to boost stocks on both sides of the Atlantic on Monday (6 December). The S&P 500 and the Dow surged 1.2% and 1.9%, respectively, the STOXX 600 added 1.3%, and the FTSE 100 gained 1.5%.

The latest data from IHS Markit / CIPS showed UK construction output rose in November as supply bottlenecks eased. Less positive was a lower gross domestic product (GDP) growth forecast from the Confederation of British Industry. It now expects GDP growth of 6.9% this year and 5.1% in 2022, down from its previous forecasts of 8.2% and 6.1%. "Significant headwinds and rising costs of living threaten the extent of recovery and prospects for economic success," said Tom Danker, the CBI's director-general.

The FTSE 100 was up 1.1% at the start of trading on Tuesday following robust sessions in the US and Asia overnight.

Fed to discuss taper acceleration

Federal Reserve chairman Jerome Powell said last week that he expects policymakers to discuss accelerating the timetable for the tapering of monthly bond purchases when the Fed meets in December. Bond purchases are currently scheduled to end in June, but Powell told a Senate committee that given the strength of the economy and inflationary pressures, it was appropriate "to consider wrapping up the taper of our asset purchases, which we actually announced at the November meeting, perhaps a few months sooner."

The comments led to speculation that the Fed could increase interest rates sooner than previously anticipated. Markets are currently pricing in at least two rate hikes in 2022.

Powell also told the Senate committee it was "probably a good time to retire" the word 'transitory' when it comes to inflation and to "try to explain more clearly what we mean". He noted that inflation had been more persistent and higher than expected, and that Omicron could lead to further supply chain disruptions.

US jobs growth weaker than expected

Last week saw disappointing US labour market data, with the closely watched nonfarm payrolls rising by 210,000 in November from the previous month. This was well below estimates of a 573,000 increase. The leisure and hospitality sector added just 23,000 jobs and remains around 1.3m lower than its pre-pandemic level, according to the Bureau of Labor Statistics.

Meanwhile, the US unemployment rate fell to a 21-month low of 4.2% in November, down from 4.6% the previous month, suggesting a tightening in the labour market.

BoE ‘unlikely’ to raise interest rates

Here in the UK, there is growing speculation that the Bank of England will hold off on raising interest rates this month because of the uncertainty about Omicron. According to the *Financial Times*, analysts expect the majority of members of the BoE’s monetary policy committee to vote to leave rates at their historic low of 0.1%.

Michael Saunders, an external committee member who voted to tighten monetary policy at the November meeting, said last week there could be advantages in waiting for more information about Omicron before raising rates.

Eurozone inflation hits record high

Inflation across the eurozone soared to an annual rate of 4.9% in November, the highest level since relevant records began in 1997 and up from 4.1% in October.

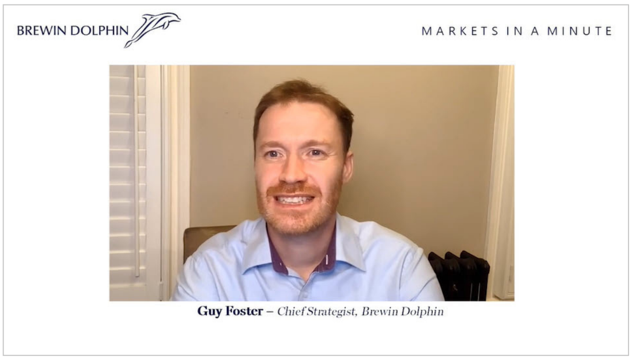
Eurozone harmonised index of consumer prices - %YOY

Source: Refinitiv Datastream

Much of the increase was driven by energy prices, which surged by 27% from a year ago, according to Eurostat. At a country level, prices in Germany rocketed by 6.0%, in France by 3.4% and in Lithuania by 9.3%.

European Central Bank board member Isabel Schnabel told ZDF television that inflation had peaked in November and would trend back towards 2% next year as supply bottlenecks and energy price growth ease. As such, it would be premature to increase interest rates. “If we thought inflation would permanently settle above 2%, we would definitely react. However, at the moment, we see no indications of this,” Schnabel said.

Separate data showed economic sentiment in the eurozone hit a six-month low in November, with the European Commission’s indicator slipping 1.1 points from the previous month to 117.5. Consumer confidence declined to -6.8 from -4.8 in October amid concerns about potential new lockdown measures.



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