



Friday, 22nd of October

Markets Outlook

Equities: Focus remains on earnings results this week in Europe, in what was a quiet start to the week for risk assets here. The main indices on the continent are between 0.6% and 1% stronger as we write, and after the S&P 500 touched a new all-time high last night. Sentiment has been boosted overnight as Evergrande have made an \$83.5m interest payment before the end of their 30-day grace period. The VIX is marginally higher on Friday to \$15.14, but still lower on the week and approaching its post-pandemic low set in June of \$14.10.

Currencies: The US Dollar has shifted slightly lower this week, as risk sentiment in general has improved and investors focus on riskier assets. EUR/USD is catching a bid on dollar weakness on Friday, bringing the world's most traded currency pair up to 1.1640 - the pair reached 11-month lows just last week at 1.1524.

Safe-havens: Precious metals have had a decent week, with gold rallying by over 1.5% to \$1,794 and silver by 4.7% to \$24.43, helped higher by some slight Dollar weakness. This year we have seen bond-equity correlations pick up, with the two now showing a fairly strong positive correlation, meaning that bonds are now selling off when equities move lower. We reiterate our underweight positions with regard to bonds, and believe that even though they may help reduce the risk-rating of a portfolio, bonds are not currently doing the job that they traditionally did. We believe individuals should explore alternatives to bonds, please contact info@seasprays.ie for further information.

Looking ahead: This afternoon the US will release Services and Manufacturing PMI results, following the lower results from the Eurozone earlier today and the UK's pick-up in activity. Next week will be important for earnings, with most of the largest tech names in the US releasing, along with other leading companies such as McDonald's, HSBC, Visa, MasterCard, Merck, Shell, Berkshire Hathaway, Samsung, and Chevron.

Key Events to Watch

- 22/10/2021 - US PMIs
- 22/10/2021 - Fed Chair Powell speaks
- 28/10/2021 - ECB Rate Decision
- 28/10/2021 - US GDP

Market Moves

Equity Indices	Value	Daily Change	YTD Change
S&P 500	4,549	0.30%	21.13%
DAX	15,472	-0.32%	12.78%
EuroStoxx	4,155	-0.39%	16.98%
ISEQ	8,392	-1.13%	13.78%
FTSE	7,190	-0.45%	11.30%
Nikkei 225	28,804	0.34%	4.96%

FX	Value	Daily Change	YTD Change
EUR/USD	1.1621	-0.24%	-4.72%
EUR/GBP	0.8424	-0.02%	-5.45%
GBP/USD	1.3791	-0.24%	0.81%
USD/CHF	0.9182	-0.07%	3.65%
USD/JPY	113.97	-0.25%	10.49%
EUR/JPY	132.44	-0.50%	5.27%

Fixed Income	Value	Daily Change
US 10yr	1.696	0.036
US 2yr	0.453	0.065
German 10yr	-0.092	0.028
Irish 10yr	0.275	0.030
UK 10yr	1.211	0.063
Japanese 10yr	0.092	-0.001

Financial News Round Up

Inflation Expectations

This week we have seen market measures of future levels of inflation in the United States climb to their highest levels in years, as investors digest company reports which are increasingly mentioning supply chain constraints, pent-up demand from the pandemic, and higher energy prices all as significant factors affecting their respective businesses.

The 10-year 'break-even' inflation rate, which comes from where the market is pricing US inflation-protected bonds, rose to 2.62% this week, its highest point since September 2012. We saw the 5-year version increase to 2.86% during the week, interestingly its highest since early 2005. These levels would indicate that the Fed's 'transitory' view on high inflation is somewhat off, and would point to a rate above the central bank's 2% target for years to come. While companies have of course been briefing investors this month on the impact of rising prices on their businesses during Q3, we expect to see greater effects on Q4 results for the most-part.

Today we also saw the German 10-year break-even inflation rate increase to its highest level since April of 2013, up to 1.81%. This may put some slight pressure on the ECB and its insistence on maintaining low rates and much of its crisis-era stimulus. The Eurozone's 5yr-5yr inflation swaps (which look at the expectations for the five-year period beginning in five years) have also increased this week to their current 1.95%.

Evergrande

The 'China Evergrande Group' has repaid a missed interest payment on one of its Dollar-denominated bonds, it has emerged overnight, ahead of what would have been a formal default tomorrow had it failed to make the \$83.5m payment. News about the last-minute payment came after a period of uncertainty for investors, and has served to boost general risk sentiment around the globe on Friday.

We note that Evergrande did not release a formal statement with the payment. The company, who are more than \$300b in debt, have missed four other offshore interest payments over the past month, and will be closely watched to see can they make these payments during their grace periods.

PMIs Today

Growth in Eurozone business activity has slowed again this month, as can be seen in the region's services and manufacturing PMI results. The 19-country bloc registered a 58.5 reading for manufacturing in October so far, versus forecasts for 57.0 and the previous 58.6. While still above 50.0 and therefore in expansionary territory, this is the region's fourth consecutive lower monthly print.

On the services side, the Eurozone saw a result of 54.7 versus 55.4 expectations and vs September's 56.4 score. This is the third consecutive move lower for this particular reading.

The UK saw a beat of expectations for both figures today, with manufacturing coming in at 57.7 vs 56.1 and the prior 57.1, and services at a robust 58.0 vs 54.5 and the previous 55.4.