

A jubilant subject

Global Matters Weekly

6 June 2022

– Robert White, CFA

While we generally do our best to avoid home bias here at Momentum, I propose to break that rule today in recognition of last week's Platinum Jubilee celebrations. Whatever your views on the monarchy, no one can deny that to serve one's country as Head of State for 70 years is truly an impressive feat. Since her ascension to the throne on February 6th 1952, Queen Elizabeth II has lived through seven recessions, met 13 US Presidents and outlasted 14 UK Prime Ministers.

Travelling back in time to her Coronation, the country was in a very different place. Although recovering from a brutal world war, Britain still had an empire with over 70 overseas territories, and formidable presence on the global stage. India had recently gained independence five years prior, and many more countries soon followed. The Queen's reign has seemingly run parallel to a reduction in the UK's global power, and we have seen the rise of the US, Japan, the EU and China as dominant economic forces in her time.

If you ask the UK public what tangible changes they remember over the last 70 years, the most common responses tend to be more mundane, esoteric events. Issues such as the shift from metric to imperial measurement systems are often cited, as is the transition from the pre-decimalised monetary system of pounds, shillings and pence, to the much simpler framework we know today.

The latter provides a good example of just how gradual change has been over the years; the UK's old money system had been in place since Henry II's reign in the 12th century, and it took parliament over a century to make the change after the Decimal Association began advocating for the move in 1841¹. Nonetheless, the Queen's portrait adorned both old and new notes alike, a welcome sign of continuity for many in a fast-modernising world.

Since decimalisation in 1971, the British pound's decline in value has mirrored Britain's reduced importance on the global

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stage. The GBP/USD exchange rate has nearly halved from 2.4 to 1.25, and UK consumers have felt the pinch over the years as Retail Price Index (RPI) inflation hit as high as 26.9% in 1975, still well above the rate today of 11.1%.

Despite this, UK consumers have certainly grown wealthier with Elizabeth II on the throne, as steadily increasing GDP per capita provides a useful proxy for improving living standards over the period. Research from analytics firm YouGov also provides interesting insights into how perceptions of the public have changed over The Queen's reign. Somewhat bizarrely, survey data suggests that Britons believe they are wealthier with more opportunities today, however they also believe that general happiness is worse today than it was in 1952².

One final encouraging parallel today is the increasing awareness of our environment. As well as the Queen's Coronation, 1952 was the year of the "Great smog of London", a severe and lethal case of air pollution which caused an estimated 8,000 to 12,000 deaths. The response to this crisis was the passage of the Clean Air Act in 1956 which restricted the burning of coal and signals some optimism for future legislative action to the current climate crisis.

Perhaps Prince Charles, the Queen's successor, can have a small part to play in this regard. Prince Charles has been a passionate champion of environmental causes over the years³, and if the monarchy is to remain relevant to today's youth, the Royal Family will likely have to be vocal on such issues. Whether or not any future monarchs can match Queen Elizabeth's longevity and popularity remains doubtful however, and she will certainly be missed by many when she is gone.

¹ <https://www.theguardian.com/money/2021/feb/15/d-day-uk-marks-50-years-since-decimalisation#:~:text=The%20anniversary%20of%20Decimal%20Day,240%20pence%2C%20in%20a%20pound.>

² <https://yougov.co.uk/topics/lifestyle/articles-reports/2022/05/30/platinum-jubilee-how-do-britons-think-uk-has-chang>

³ <https://www.princeofwales.gov.uk/sustainability>

All other sources from Bloomberg Finance, Ltd.

The Marketplace

- Global equities fell 0.8% last week
- Russia's war with Ukraine passed the 100th day
- Brent crude rose 0.2% to \$119.72 a barrel
- Gold returned -0.1% to \$1851.19 per ounce.

Market Focus

US

- US equities fell 1.2% last week, despite being closed on Monday for Memorial Day. Oil/Gas and Energy outperformed, while Healthcare and Retail underperformed
- US Manufacturing PMI for May was 56.1 (vs 54.5 expected)
- US CB Consumer Confidence for May was 0.7% (vs 0.5% expected)
- The unemployment rate for May was 3.6% (vs 3.5% expected), adding 390k positions, compared to 436k in April. Initial Jobless claims for the week was 200k (vs 210k expected)
- President Biden may travel to Saudi Arabia this month as part of a NATO trip. Biden conceded that there is no quick fix to surging fuel costs
- The Fed started the process of reducing their vast \$8.9trn balance sheet this week though officials have little clarity on how effective the policy will be.

Europe

- European equities declined 0.6% last week, with Personal Household Goods and Auto/Parts outperforming while Travel/Leisure and Insurance underperformed
- CPI for May year-on-year was 8.1% (vs 7.7% expected)
- German unemployment for May was -4k (vs -16k expected)
- EU leaders agreed to pursue a partial ban on Russian oil which pushed oil to a two month high, but later in the week Saudi Arabia agreed to increase production. However, Hungary's demands for Russian oil is delaying the EU's sixth sanction package.

UK

- UK equities returned -0.5% last week, though markets were closed Thursday and Friday in celebration of the Queen's Platinum Jubilee
- UK Manufacturing PMI for May was in line with estimates at 54.6
- The UK house price index grew 0.9% month-on-month; the tenth monthly consecutive growth implying an annual rate of 11.2% (vs 10.5% expected). Demand remains strong with supply at historically low levels.

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned 1.8% last week
- Japanese equities returned 2.5% over the week
- Chinese equities returned 3.5% last week, though markets were closed Friday due to the Dragon Boat Festival
- China's May Manufacturing PMI was stronger than expected at 49.6 (vs 48 estimate) easing previous lockdown concerns affecting manufacturing
- Caixin Manufacturing PMI for May was 48.1 (vs 48 expected)
- Australian GDP quarter-on-quarter for Q1 was 0.8% (vs 0.5% expected).

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Asset Class/Region	Currency	Currency returns			
		Week ending 3 June 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	-1.2%	-0.5%	-13.4%	-1.0%
United Kingdom	GBP	-0.5%	-0.8%	6.3%	13.8%
Continental Europe	EUR	-0.6%	-0.4%	-10.5%	-2.4%
Japan	JPY	2.5%	1.1%	-1.7%	1.1%
Asia Pacific (ex Japan)	USD	2.1%	-0.9%	-11.3%	-19.8%
Australia	AUD	0.8%	0.4%	-0.9%	3.8%
Global	USD	-0.8%	-0.4%	-13.3%	-5.1%
Emerging markets equities					
Emerging Europe	USD	2.3%	0.4%	-74.2%	-74.3%
Emerging Asia	USD	2.3%	-1.5%	-14.3%	-23.3%
Emerging Latin America	USD	-1.9%	-1.0%	18.6%	-0.7%
BRICs	USD	2.3%	-1.0%	-18.0%	-30.8%
China	USD	3.5%	-1.2%	-17.7%	-36.4%
MENA countries	USD	1.2%	-1.8%	7.1%	16.0%
South Africa	USD	0.4%	-2.2%	3.8%	-10.8%
India	USD	1.5%	-0.1%	-7.8%	0.8%
Global emerging markets	USD	1.8%	-1.5%	-13.1%	-21.5%
Bonds					
US Treasuries	USD	-1.0%	-0.4%	-8.4%	-7.3%
US Treasuries (inflation protected)	USD	0.1%	0.7%	-6.0%	-0.9%
US Corporate (investment grade)	USD	-0.8%	-0.4%	-12.3%	-10.4%
US High Yield	USD	-0.3%	-0.4%	-8.4%	-5.8%
UK Gilts	GBP	-2.2%	-0.2%	-12.9%	-11.2%
UK Corporate (investment grade)	GBP	-1.2%	-0.1%	-11.3%	-10.6%
Euro Government Bonds	EUR	-2.6%	-1.3%	-11.7%	-11.9%
Euro Corporate (investment grade)	EUR	-0.7%	-0.2%	-8.9%	-9.1%
Euro High Yield	EUR	0.1%	0.0%	-8.2%	-7.5%
Japanese Government	JPY	-0.2%	0.0%	-2.1%	-2.0%
Australian Government	AUD	-1.3%	-0.8%	-9.6%	-9.9%
Global Government Bonds	USD	-1.8%	-0.8%	-12.1%	-14.1%
Global Bonds	USD	-1.5%	-0.7%	-12.2%	-14.2%
Global Convertible Bonds	USD	-0.1%	0.0%	-15.7%	-19.5%
Emerging Market Bonds	USD	-0.8%	-0.4%	-21.5%	-22.0%

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Property					
US Property Securities	USD	-1.9%	-0.9%	-15.0%	-1.0%
Australian Property Securities	AUD	0.1%	-1.2%	-16.3%	-4.0%
Asia Property Securities	USD	-0.9%	-0.4%	-3.4%	-14.0%
Global Property Securities	USD	-1.4%	-0.9%	-13.1%	-7.3%
Currencies					
Euro	USD	0.2%	0.0%	-5.8%	-11.5%
UK Pound Sterling	USD	-0.7%	-0.8%	-7.5%	-11.2%
Japanese Yen	USD	-2.8%	-1.7%	-12.1%	-15.7%
Australian Dollar	USD	1.0%	0.4%	-0.8%	-5.7%
South African Rand	USD	0.6%	0.4%	2.6%	-12.2%
Swiss Franc	USD	-0.5%	-0.4%	-5.3%	-6.0%
Chinese Yuan	USD	0.6%	0.2%	-4.6%	-3.9%
Commodities & Alternatives					
Commodities	USD	0.1%	1.5%	38.0%	55.4%
Agricultural Commodities	USD	-3.6%	-1.2%	19.9%	33.6%
Oil	USD	0.2%	-2.5%	53.9%	67.9%
Gold	USD	-0.1%	0.3%	1.2%	-1.1%
Hedge funds	USD	0.6%	0.2%	-3.1%	-2.9%

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