



Heriot-Watt University Investment Society

Markets Briefing: July 2021



US equity indices rose in the month of July as inflation expectations were dampened slightly, while UK and emerging market indices failed to turn positive.

Equities

Chinese equities experienced their biggest decline since the 2008 global financial crisis, with the NASDAQ Golden Dragon China Index falling 22% for the month. The 28% peak-to-trough fall followed the increase in regulation on Chinese companies by the government and governmental entities. The sharp fall eased in the last trading days of July as Chinese state owned publications eased investors concerns.

Two of the largest decliners were DiDi Global Inc. and TAL Education Group. DiDi lost over half its value at one stage in the July decline, while TAL finished the month with a share price decline exceeding 75%.

Looking at US markets, the NASDAQ rose a little over 1% in July, a small gain given the large earnings beats by Apple, Microsoft, Google, and Tesla – names that dominate the index. The S&P 500 finished the month up more than 2%, however, the CBOE VIX (Market Volatility Index) rose sharply in the month as uncertainty surrounding the Delta Covid variant from last month continued throughout this month.

Amazon fell over 7% on the last trading day of the month after failing to beat Wall Street revenue expectations for the first time in 3 years.

The UK FTSE 100 finished the month flat, down just 7 basis points despite many constituents of the index increasing dividend payments and announcing an optimistic outlook.



Source: Koyfin

Monetary Policy & Economic Indicators

The Federal Reserve stated it would keep interest rates low (between 0% and 0.25%) after the FOMC meeting on Wednesday the 28th of July. There was also no clear indication on when the \$120bn of bond purchases each month would be reduced.

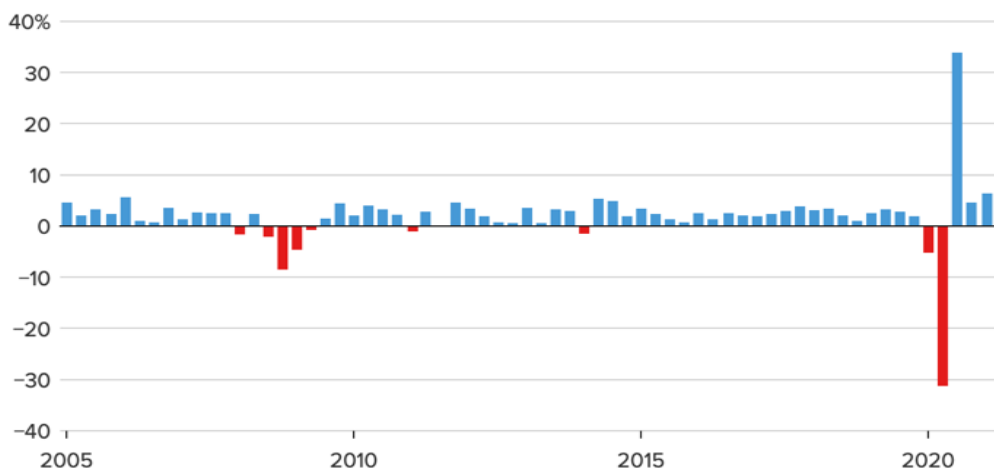
US GDP rose 6.5% in Q2 of 2021, 2% below expectations indicating a slower than expected rise in economic activity – dampening inflation expectations.

Fixed Income

This month, the real yield on TIPS (10-year US inflation-protected securities) reached a record low. This came as over \$3.2bn of capital was invested in the bonds, continuing the trend of debt purchases worldwide.

The J.P. Morgan Emerging Market Debt Quarterly Strategy report was released in July. The report favoured investing in emerging market debt – particularly high yield debt – which they expect to outperform over the coming year.

U.S. gross domestic product, change from previous quarter



Source: Bureau of Economic Analysis. Data is seasonally adjusted at an annual rate.

Source: CNBC

Currencies

The US Dollar Index (DXY) ended the month where it started after a substantial increase in the previous month. Turkish Lira (TRY/USD) started to recover from the sharp March decline by increasing nearly 3% in July.

Bitcoin and Ethereum – the two largest cryptocurrencies by market capitalisation – finished the month up over 20% and 8% respectively. Both cryptocurrencies started the month on a negative trend, with Bitcoin falling below \$30,000 prior to a sharp and sustained increase on July 21st. One potential catalyst for this move was rumours of Amazon accepting cryptocurrency payments.

About us

Heriot-Watt University Investment Society aims to provide its members with the opportunity to learn about financial markets, investment research, and fundamental analysis. By creating an environment in which like-minded students feel open to share ideas, views and insights, HWUIS contributes to developing the next generation of finance professionals.