

# Six Minute Strategy

## China, tech & taper – the outlook for world markets

September 2021

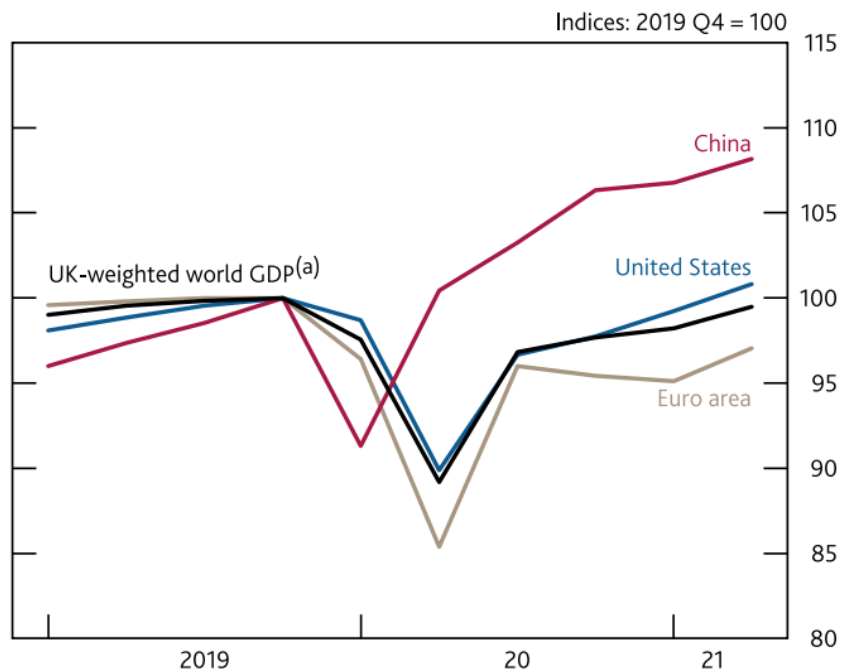


# From a hot to a more steady global recovery



## Global forecasts of recovery to pre-crisis levels

**Chart 2.4: The global economy has continued to recover GDP in selected countries and regions**



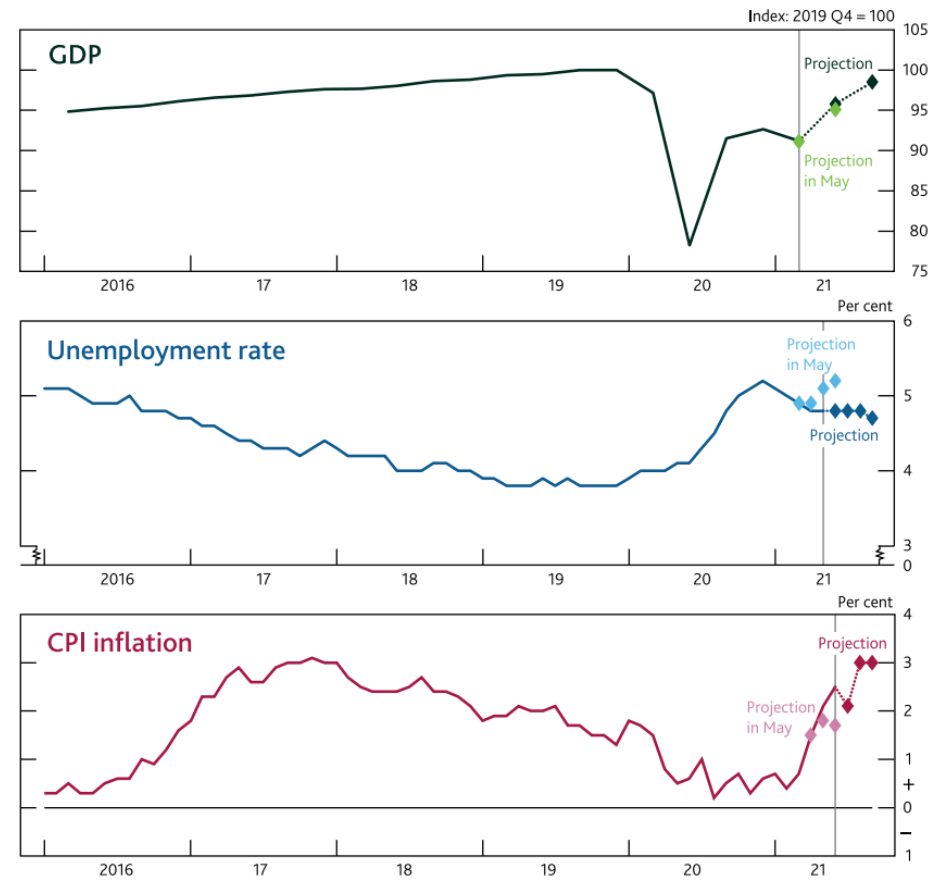
Sources: Refinitiv Eikon from LSEG, IMF *World Economic Outlook (WEO)*, National Bureau of Statistics of China, OECD, ONS and Bank calculations.

(a) See footnote (c) of **Table 1.B** for definition. Figure for 2021 Q2 is a Bank staff projection.

Source: Bank of England, August 2021



## UK recovery profile



Sources: ONS and Bank calculations.

Source: Bank of England, August 2021

# 1. Jackson Hole – disconnect between QE and rates?

Inflation transitory - asset purchases to slow - little sign of higher rates

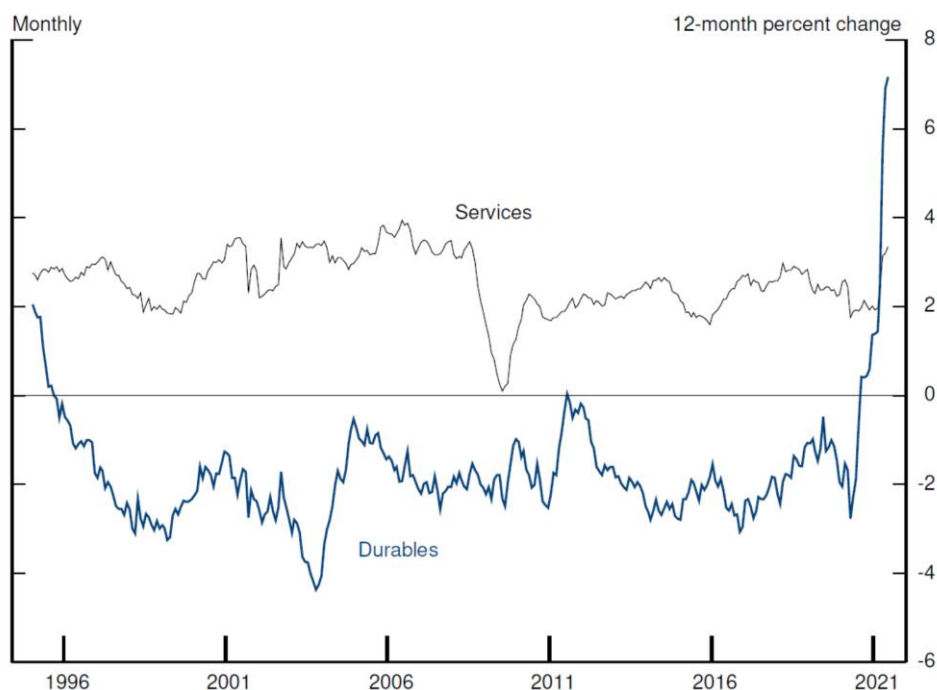


Durable goods inflation unlikely to persist over time



Powell reassures markets...again

**Figure 5. Durable Goods Inflation Has Run Far below That of Services for 25 Years before the Pandemic**



Note: The data are price deflators for personal consumption expenditures and extend through June 2021.

Source: U.S. Bureau of Economic Analysis.

“We have said that we would continue our asset purchases at the current pace until we see substantial further progress toward our maximum employment and price stability goals...my view is that the "substantial further progress" test has been met for inflation. There has also been clear progress toward maximum employment.

The timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff...we will continue to hold the target range for the federal funds rate at its current level until the economy reaches conditions consistent with maximum employment, and inflation has reached 2 percent and is on track to moderately exceed 2 percent for some time”

Source: Federal Reserve, August 2021

FOMC Chair Jerome H. Powell  
August 27<sup>th</sup> 2021

## 2. China slowdown & regulatory agenda

July activity was weaker-than-expected, driven by COVID restrictions & floods

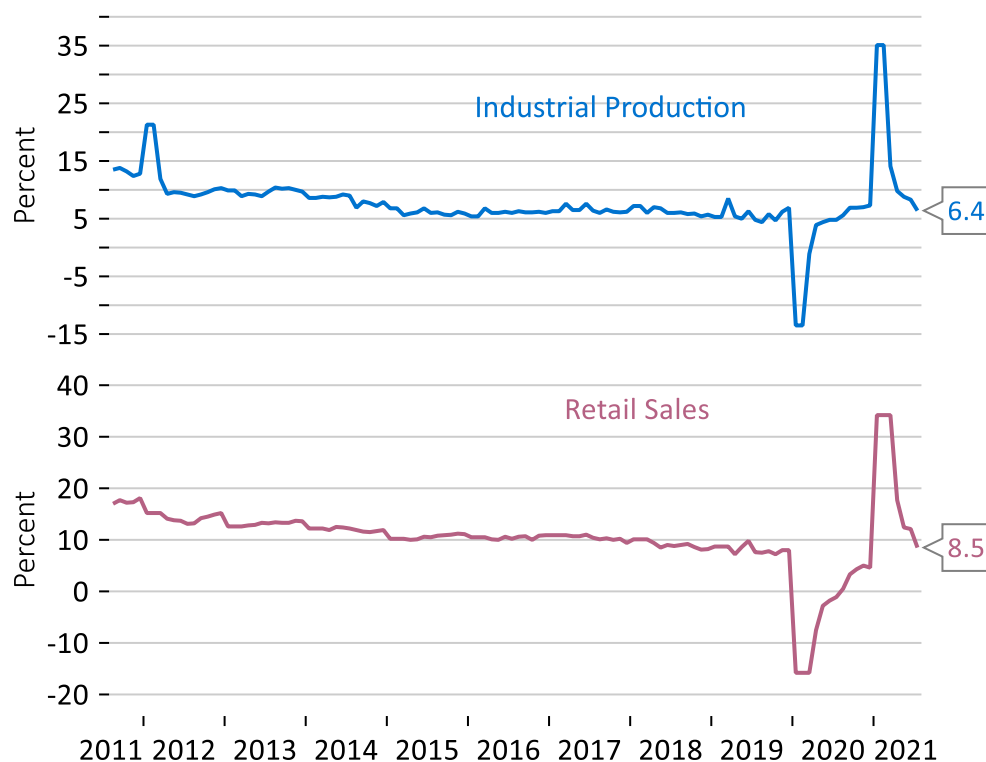


Economic activity continues to moderate



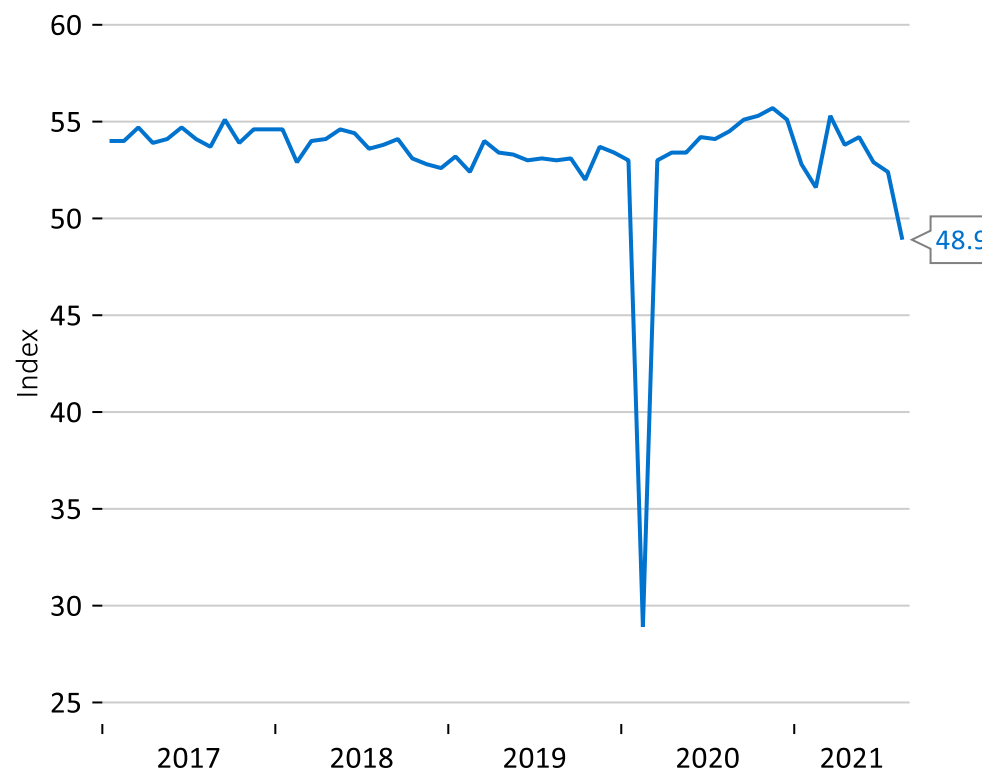
Purchasing manager surveys continue to fade

### China Industrial Production and Retail Sales



Source: Macrobond, 03.09.21

### China, Business Surveys Composite PMI



Source: Macrobond, 03.09.21

# The China regulatory shock

We think we are not too far away from the beginning of the end of the China regulatory shock

- Our view is that we now have an overarching regulatory framework (i.e. we have a much clearer idea what the government now wants)
- To build an internet company will need 3 ingredients - *now we have regulations covering all of them*
  - Capital – raise money (e.g. PE, VE, IPO) to capture a market as quickly as possible
  - User data – know your users as much as you can to provide the most relevant products and services
  - Algorithm – create and improve engagement (then time spent, mindshare and ad \$ will follow!)

| Capital   | User data   | Algorithm                                      |
|---|---|--|
| CAC*'s cybersecurity review on overseas listing | Data Security Law (effective 1 Sep)                   | CAC's draft regulations on algorithm on 27 Aug |
| Anti-trust regulations on predatory pricing     | Personal Information Protection Law (effective 1 Nov) |  |

- In the future, we should hopefully see
  - more of the same: regulations/investigations: e.g. like gaming, China has now further tightened how many hours the underage can play, but relevant regulations already exist
  - specific social issues that China wants to address: e.g. after-school tutoring, and fan-based culture

# Market performance 2021-to-date

Global equities continue to climb – growth & value neck & neck – China sharply underperforms

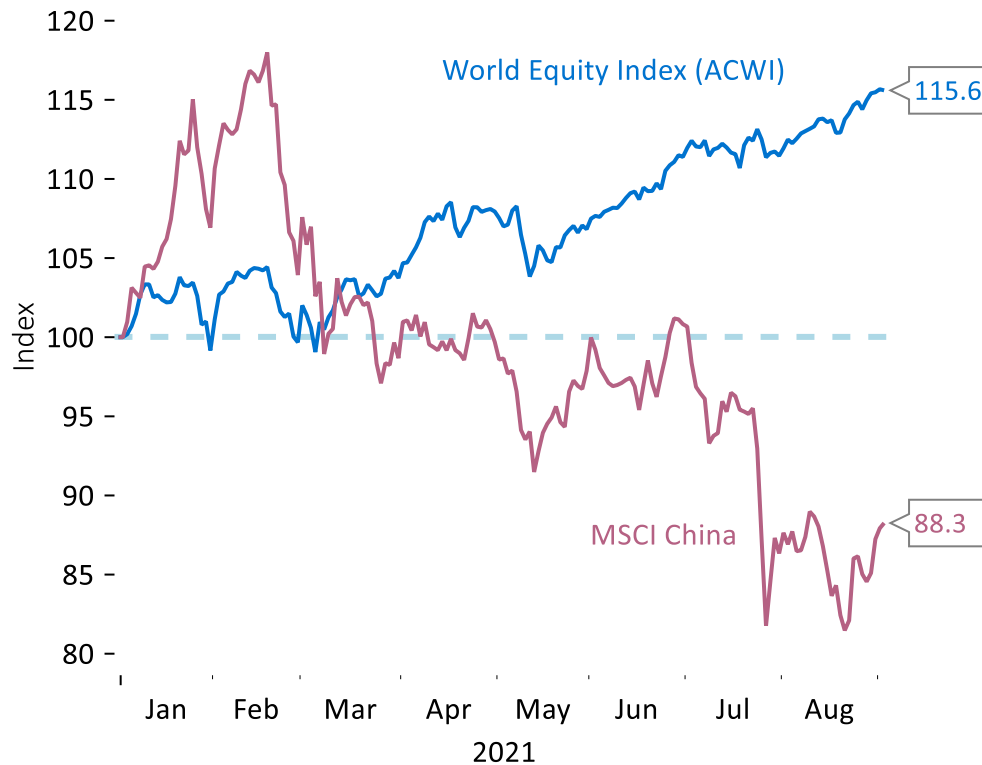


Equities rally, bonds & gold decline



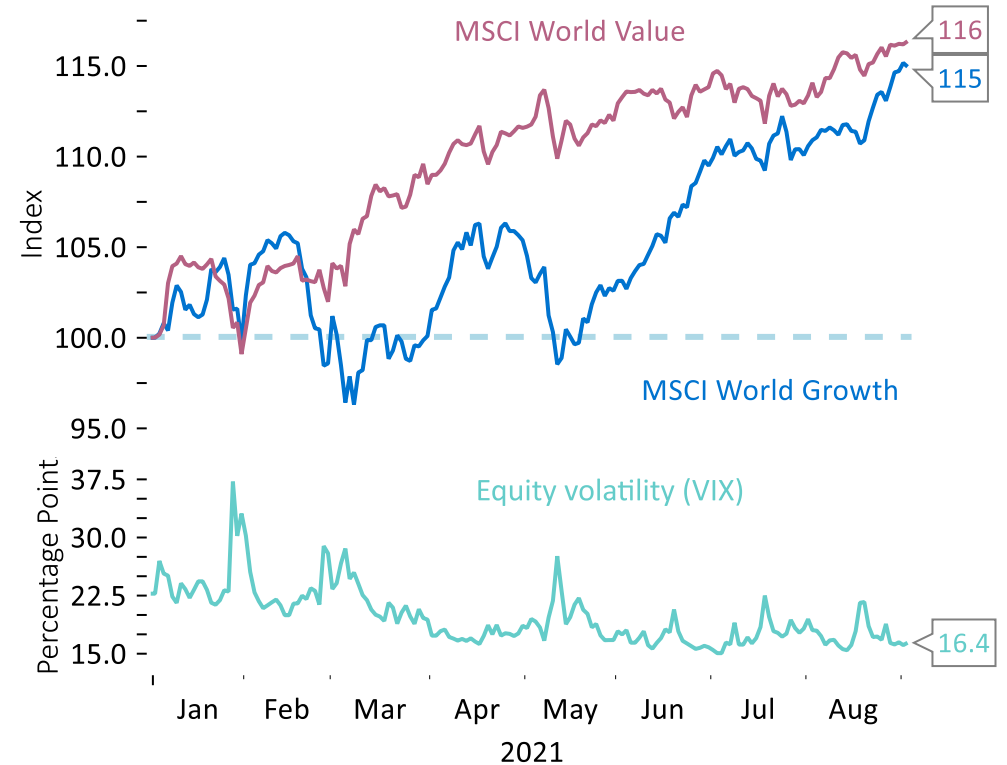
Growth closes gap with value – volatility falls

Global Asset Class Returns 2020 (£) to date



Source: Macrobond, 03.09.21

World Equity Style 2021



Source: Macrobond, 03.09.21

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