GLOBAL INSIGHTS
AUG 2021

PI SQUARE
INVESTMENTS

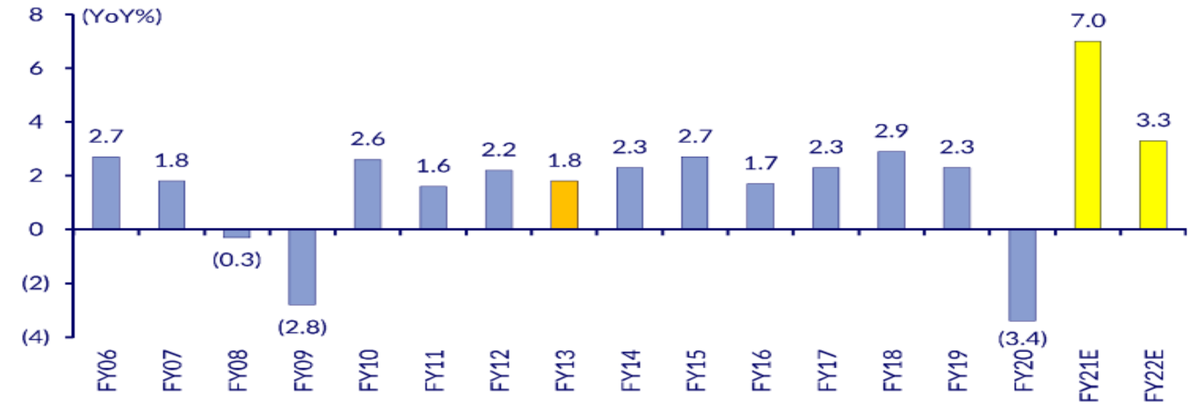
US equity was favoured by strong investor optimism in the month of August, despite uncertainty around the delta variant. S&P500 posted 2.9% return for the month of August, best one since April 2021. All three major indices hit new highs backed by strong corporate earnings and Fed's assurance around stabilizing inflation. June and July were strong months for hiring as restrictions on service industries were lifted across the country, but the recent spread of the coronavirus delta variant has been a concern for the month of August where the number slowed again.

Inflation in the eurozone hit its highest level in nearly a decade in August amid signs that shortages of semiconductors and other important manufacturing components are pushing up prices. Inflation rates have picked up world-wide in recent months, largely driven by rising energy costs (WTI crude up 42% in CY21) as a rebound in demand proves stronger than oil and other energy producers anticipated. But there are signs that shortages of key parts such as microprocessors also are pushing consumer prices higher, threatening a longer period of stronger inflation. German inflation has risen to its highest level since 2008, driven by rebounding economic activity, higher energy prices and disruption to global supply chains.

Federal Reserve Chair Jerome Powell said the central bank could begin reducing its monthly bond purchases this year, though it won't be in a hurry to begin raising interest rates thereafter. However, this time the economy and unemployment are better than long term targets as well as that of 2013 "taper tantrum". Unlike 2013, the inflation and bond prices are expected to remain under control as the economy is expected to grow at 7% for FY21 as compared to just 1.8% in the year 2013 (refer Fig.1 below).

Figure 1

US Real GDP growth (YoY %)



Source: US Federal Reserve, Bloomberg, CLSA

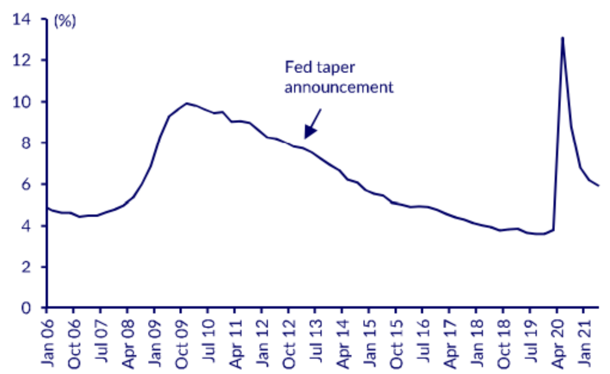
Figure 2

US Core PCE Inflation (YoY %)

Source: Bloomberg, CLSA

Figure 3

US unemployment rate (%)



Source: Bloomberg, CLSA

A continuous shortage of available homes in the U.S. has kept the prices higher. A report published by Freddie Mac says, U.S. needs 3.8 million homes to meet the rising housing demand. This was reflected in the S&P500 real estate index which soared 27% during CY2021 till date. The Biden administration has outlined plans to spur the building and restoration of more than 2 million homes to help ease the shortage, including offering increased mortgage availability through Freddie Mac and Fannie Mae for manufactured houses and buildings with two to four units.

US housing markets posted one of the best yearly gains. The median price for an existing home reached over $363,000 in June 2021, a 23.4% year-over-year increase. We have added D R Horton (one of the largest home builders) in our portfolio as we expect housing players to post almost 70%+ gains in profitability this CY. Large players in the housing market are currently valued at 10-11 P/E, half the valuations compared to S&P 500. We have also added Pinterest in our portfolio as we see consistent growth of users/ subscribers for Pinterest. As Pinterest turned profitable from the current quarter, our estimates show, Pinterest EPS shall jump from 0.60 (CY20) to 1.45 (CY22). Marvel technology (Semiconductor and related technologies developer and producer) has been one of the top performers for our portfolio for CY2021 and continues to beat the street with higher than estimated growth. We believe US markets will continue to outperform global indices on the back of strong CY2021 growth. We will keep an eye on federal interest rate policy as we believe interest rate is the largest risk to the on going bull rally.