

Markets shrug off inflation worries



Markets performed well for most of November despite concerns about rising inflation, but dipped at the end of the month as news of the Omicron variant emerged.

World leaders gathered in Glasgow for the COP26 meeting in November, which was the biggest diplomatic event since the beginning of the pandemic. Almost 200 countries agreed to a climate deal to avoid the worst effects of global warming.

The new Omicron coronavirus variant sparked a spike in alarm for the markets, sending share and oil prices tumbling over concerns the fast-spreading strain could throw the recovery into reverse.

US stock markets experience highs and lows

In the US the S&P 500 index reached record highs in November, after a strong quarterly earnings season from corporate America. The Federal Reserve's (Fed) announcement that it will soon begin to taper its bond-buying programme did not initially deter markets either. Policymakers said there are unlikely to raise interest rates any time soon, though concerns about rising inflation remain after the annual increase in consumer prices surged to 6.2% in October, mostly due to rising fuel prices.

Later in November, US and European stocks slipped after news that President Biden renominated Jerome Powell as chair of the Fed. Stocks also fell towards the end of the month around concerns about the new Omicron coronavirus variant and after Powell suggested the Fed may begin removing its support of the economy sooner than expected.

UK economic growth slows

Figures revealed that the UK economy grew by just 1.3% in the third quarter, which was slower than in the previous three months. Following the news, the pound fell to its lowest level for the year against other major currencies (which was beneficial for FTSE 100 companies that generate revenue abroad). In fact the FTSE 100 hit a new high since the start of the pandemic in February 2020. However, towards the end of the month it fell due to the same concerns affecting other markets around the Omicron variant.

Key takeaways

- The S&P 500 index reached record highs in November, but fell at the end of the month due to the Omicron variant..
- The UK's economic recovery slowed in the third quarter, while inflation continued to climb higher.
- The FTSE 100 hit a new pandemic high – its highest mark since February 2020, but also fell towards the end of the month.

The UK's inflation rate rose to its highest level in a decade at 4.2%, which is more than double the government had predicted, putting the squeeze on the cost of living, including soaring energy bills for many. The Bank of England did not raise interest rates and although a December rise might still be in play, the Omicron variant could delay things further.

Europe's economy shows unexpected growth

The European Central Bank played down expectations of a rise in interest rates next year. Although consumer prices have risen across the region to 4.1%, the outlook for inflation remains subdued. However, in contrast to the UK's third quarter, the euro zone's economy grew by 3.7% compared to the same three months in 2020.

In the industrial metals market, Europe and the US resolved their trade dispute, with the Biden administration now accepting European imports of steel in the knowledge that Europe will not impose retaliatory tariffs on a range of American goods. The goal of both sides is to produce 'sustainable steel' over the long term.

Emerging markets drop

Equities in emerging markets suffered their steepest decline in a few weeks, during mid-November, due to concerns over global inflation, economic sluggishness in China and the US financial tapering announcement from the Fed.

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