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Markets in a Minute

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Stocks surge as US agrees $1trn infrastructure deal

Global equities rebounded last week after Republican and Democratic senators reached a bipartisan agreement on a huge US infrastructure package.

The S&P 500 and the Nasdaq reached new all-time highs, ending the week up 2.7% and 2.4%, respectively. Energy stocks outperformed as supply constraints pushed oil prices to their highest level since October 2018.

The UK's FTSE 100 rose 1.7% after the Bank of England said that while inflation could reach 3% in the coming months, this would prove to be a temporary phenomenon. This sentiment was echoed by the European Central Bank, which helped to boost the pan-European STOXX 600 by 1.2%.

Over in Asia, Japan's Nikkei 225 edged up 0.4% as the country's vaccination drive helped to outweigh a decline in business activity. China's Shanghai Composite gained 2.3% after the central bank increased its injection of short-term cash into the financial system for the first time since March amid growing demand for liquidity.

Last week's markets performance*

- FTSE 100: +1.69%
- S&P 500: +2.74%
- Dow: +3.44%
- Nasdaq: +2.35%
- Dax: +1.04%
- Hang Seng: +1.69%
- Shanghai Composite: +2.34%
- Nikkei: +0.35%

** Data from close on Friday 18 June to close of business on Friday 25 June.*

Travel curbs weigh on European indices

UK and European stocks tumbled into the red on Monday (28 June) after Portugal, Spain and Germany introduced new travel restrictions in a bid to limit the spread of the Delta variant of Covid-19. Germany's chancellor Angela Merkel reportedly urged the EU to designate the UK a 'country of concern' and introduce stricter quarantine measures for British travellers.

The FTSE 100 finished Monday's trading session down 0.9%, with shares in British Airways owner IAG, travel company TUI and budget airline easyJet all falling by more than 5%. The pan-European STOXX 600 slipped 0.6% and Spain's IBEX 35 lost 2.0%.

Over in the US, indices were mixed as technology stocks outperformed while some large energy stocks declined. The Dow slipped 0.4% whereas the S&P 500 and the Nasdaq gained 0.2% and 1.0%, respectively.

The FTSE 100 was up 0.3% at the start of trading on Tuesday, ahead of the release of the latest UK mortgage approvals and consumer credit data. The figures for May showed a record rise in mortgage approvals following the recent extension to the stamp duty holiday, and the first lending increase since August 2020.

Infrastructure bill passes first hurdle

Last week, US President Joe Biden and a group of Democratic and Republican senators agreed a $1trn bipartisan deal to upgrade the country's infrastructure. The eight-year plan includes funding for roads, bridges, railways and public transport, as well as expanding access to broadband and upgrading the power grid.

The plan would be funded by $125bn in unused Covid-19 relief funds, returned state jobless benefits, and greater tax enforcement.

The deal is a significantly pared down version of Biden's original proposal, however the Democrats hope to push through a separate spending bill worth around $6trn. This would tackle issues such as climate change, education and childcare benefits and potentially be funded by tax increases on corporations and the wealthy.

The announcement helped to boost industrial, energy and financial stocks and outweigh concerns about the most recent US inflation reading.

US core inflation hits 29-year high

The US core personal consumption expenditures price index, an important inflation gauge, rose by 3.4% in May from a year ago – the biggest increase since 1992. On a monthly basis, the index rose by 0.5%, which was slightly below expectations of a 0.6% increase. The Bureau of Economic Analysis said headline inflation, which includes volatile food and energy prices, rose by 3.9% from a year ago – the biggest increase since August 2008, just before the worst of the financial crisis hit.

The increase partly reflected base effects from a year ago, when prices were supressed by the pandemic, as well as supply chain disruptions and growing demand as the economy reopens.

Separate figures showed US house prices are also continuing to soar. The median existing home price rose by 23.6% in May from a year ago, with every region registering price increases, according to the National Association of Realtors. This was a record high and marked 111 consecutive months of year-over-year gains.

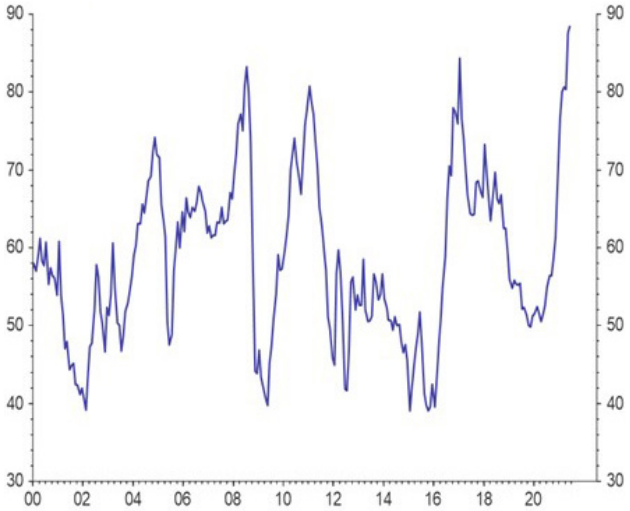
BoE views high inflation as temporary

Here in the UK, the Bank of England sought to calm fears about rising prices by stating that while inflation could exceed 3% in the coming months, the surge was temporary.

"The committee's central expectation is that the economy will experience a temporary period of strong GDP growth and above-target CPI inflation, after which growth and inflation will fall back," the Bank's Monetary Policy Committee said.

The Bank said stronger demand, rising commodity prices, supply side constraints and transport bottlenecks were all factors that had driven increased inflationary pressures.

UK manufacturing PMI - Input prices



Source: Refinitiv Datastream

This was reflected in the latest input price component of the manufacturing PMI, published last Wednesday, which hit an all-time high.

Chris Williamson, chief business economist at IHS Markit, said record levels in the survey's price gauges and further capacity constraints "hint strongly that consumer price inflation has much further to rise after already breaching the Bank of England's 2% target in May".

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