

The rate of unemployment in the UK fell to its lowest level since 1975 in the three months to May, declining to 4.5%. However, wage growth continued to lag inflation: average earnings (excluding bonuses) rose at an annualised rate of 2%. Moreover, once inflation was stripped out, real weekly wages fell at an annualised rate of 0.5%, stoking concerns about the possible impact on economic growth.



UK equity indices generally rose during July, although medium-sized companies generally performed better than their larger counterparts. Over the month, the FTSE 250 Index rose by 2.3%, while the blue-chip FTSE 100 Index climbed by 0.8%. Meanwhile, the FTSE 250 Index's yield fell from 2.71% to 2.65% during July, and the yield on the FTSE 100 Index eased from 3.84% to 3.80%. In comparison, the yield on the ten-year gilt edged down from 1.33% to 1.29% over the month.

Support services and construction firm Carillion issued a profit warning and announced the suspension of its dividend pay-out. Elsewhere, HSBC Holdings announced a new share buyback of up to US\$2 billion, taking its buyback total to US\$5.5 billion. According to HSBC's CEO, Stuart Gulliver, the company has paid "more in dividends than any other European or American bank" over the past 12 months.

UK [Investment](#) dividend pay-outs hit a new second-quarter record in 2017, according to Capita Asset Services' quarterly UK Dividend Monitor, reaching a total of £33.3 billion. Dividends were boosted by a strong contribution from companies in a "resurgent" mining sector, where second-quarter pay-outs rose at an annualised rate of 73%. During July, miner Anglo American revealed stronger-than-expected half-year results and a sharp decline in debt, and announced the early reinstatement of its dividend pay-out. Its dividend policy will target a pay-out of 40% of underlying earnings. Anglo American announced the cancellation of its dividend pay-out in December 2015 as part of a restructuring programme designed to address a downturn in commodity prices.

Total underlying dividend payments of £28.6 billion were augmented in the second quarter by special dividends totalling £4.6 billion. Sterling's weakness continued to flatter pay-outs from UK companies: underlying growth in the second quarter was 12.6%; however, when the currency effects were stripped out, underlying growth was a slightly more modest 7.8%. Looking ahead, although the second half of the year is expected to be quieter than the first half in terms of dividends, Capita still expects 2017 to be a record year.

EUROPE

Uncertainties surrounding Brexit continue. The UK will "soon regret" leaving the EU, European Commission President Jean-Claude Juncker has said. Inflation hit 2.9%, ahead of the Bank of England's target of 2%....ongoing concerns of a rise in interest rates continue.



The euro rose to its highest level against the US dollar since January 2015 during August, driven up by concerns over the impact of Tropical Storm Harvey in the US, and by the strengthening European economy. The eurozone's economy expanded at an annualised rate of 2.2% during the second quarter.

The euro's appreciation generated some apprehension about the impact on corporate earnings in the region. Over August, the Dax Index fell by 0.5%, while the CAC 40 Index edged 0.2% lower.



European Central Bank (ECB) President Mario Draghi played down speculation that the central bank intends to start winding down its programme of economic stimulus measures soon. Mr Draghi said: "The last thing that the Governing Council may want is actually an unwanted tightening of the financing conditions that either slows down this process or may even jeopardise it". Mr Draghi hailed the measures as successful, citing "all the economic sentiment indicators (and) survey indicators (which) are either at all-time highs or close to that". The euro rose to its highest level against

the US dollar since the beginning of 2015; meanwhile, the Dax Index fell by 1.7% and the CAC 40 Index dropped by 0.5% over the month.

Mr Draghi issued a cautionary note, however, warning that underlying inflation remains subdued and has not yet demonstrated "convincing signs of a pick-up". The annualised rate of inflation in the euro area remained unchanged at 1.3% during June, remaining below the ECB's 2% target. A survey undertaken by the ECB found that expectations for inflation in the euro area have deteriorated, highlighting the problems faced by the central bank. The survey found that the rate of inflation expected to remain below target in 2017, 2018 and 2019.

Economic sentiment in the eurozone rose in July to its highest level for ten years. Sentiment was boosted by stronger confidence in the services sector. The eurozone's rate of unemployment fell to 9.1% during June, reaching its lowest level since February 2009. The International Monetary Fund (IMF) expects economic expansion in the eurozone to be stronger than previously predicted, and upgraded its forecast for 2017 from 1.7% to 1.9%, citing better-than-expected momentum in domestic demand. The IMF also upgraded its economic forecasts for several major European countries, including Spain – which is expected to expand this year by 3.1% - and Italy, which is forecast to grow by 1.3%.

Following a surge in demand for European equity funds in April and May, [investors'](#) appetite for funds in the Europe excluding UK sector declined during June, according to the Investment Association (IA). Nevertheless, in absolute terms, demand remained relatively robust and the sector experienced net inflows of £188 million during the month. Similarly, although demand for funds in the European Smaller Companies sector waned in June, net retail sales remained in positive territory.

USA

The US economy expanded at an annualised rate of 3% during the second quarter of 2017, compared with an earlier growth estimate of 2.6%. The Dow Jones Industrial Average Index edged 0.3% higher over August.

The hurricane season is still playing havoc with the production of oil, refining activity, demand and distribution. Prices rocketed in August, early September and it is very unstable.



Credit ratings agency Moody's reported that, of the US\$1.84 billion cash pile held by US non-financial companies, 87% of the pile is held by investment-grade companies, and the top-five cash hoarders can all be found in the technology sector, led by Apple.

Despite a backdrop of persistently low inflation, speculation over the likelihood of tighter monetary policy continued to put pressure on global bond and currency markets during July. The US Federal Reserve is expected to begin cutting back its balance sheet soon; meanwhile, the European Central Bank is trying to curb speculation that it intends to wind down its programme of economic stimulus measures.

EMERGING MARKETS



China's economy posted annualised growth of 6.9% during the second quarter of 2017, having also expanded by 6.9% during the first three months of the year. This growth exceeded the Chinese government's official annual economic growth target of around 6.5%. Although the news was generally well received, it did not manage to allay broader concerns over the impact of China's mounting debt burden, excess capacity in the manufacturing sector, and worries over a bubble in the property sector. The

Shanghai Composite Index rose by 2.6% during July.

The International Monetary Fund (IMF) upgraded its forecast for China's economic growth in 2017 from 6.6% to 6.7%, and in 2018 from 6.2% to 6.4%, citing the country's "policy easing and supply-side reforms". China's industrial output rebounded in June, rising at an annualised rate of 7.6%; meanwhile, imports grew at an annualised rate of 18.9% during June, while exports rose by 8.5%. Elsewhere, retail sales increased to their highest level for more than a year during June, rising at an annualised rate of 11%. During July, China's authorities launched a new programme – Bond Connect – which is designed to open the country's bond market and make it easier for foreign investors to buy and sell Chinese bonds.

In India, pressure on central bank policymakers continued to intensify amid calls to cut interest rates. The Reserve Bank of India's (RBI's) key interest rate currently stands at 6.25%. Disappointing inflation figures were compounded by lacklustre industrial production data in July. Annualised consumer price inflation fell from 2.18% in May to 1.54% during June, while the rate of wholesale price inflation dropped from 2.17% to 0.9%. The CNX Nifty Index rose by 5.8% during July.

Brazil's economic growth is likely to remain weak for a prolonged period, according to a report by the World Trade Organisation (WTO), although the WTO expects the country to begin a gradual recovery over 2017. The WTO believes that, although Brazil's fundamentals are generally solid, the economy remains vulnerable to fresh political uncertainties and delays in tackling fiscal imbalances and structural reforms. Meanwhile, the International Monetary Fund (IMF) believes that Brazil's economy is reaching a "turning point"; nevertheless, like the WTO, the IMF remains concerned about the impact of political instability. Over July, the benchmark Bovespa Index posted a rise of 4.8%.