2 May 2023

Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Bank holiday commotion for the US banking sector

Key takeaways

While the UK enjoyed a bank holiday weekend, another casualty was announced in the US banking sector. Meanwhile, economic data for the world's two largest economies (the US and China) painted a picture of generally slower growth.

- The US economy grew by less than expected in the first quarter of 2023, and US consumer confidence fell in March. Against this chequered backdrop, financial markets will be closely watching the US central bank for its next decision on interest rates, which will be announced following a policymaker meeting this week.

- Adding to the complexity of the situation, a new week has begun with another casualty in the US banking sector, as the failure of First Republic was announced yesterday (a bank holiday in the UK). This is the 14th largest bank in the US, and its breakdown marks the second largest banking failure in history. First Republic's assets will be taken over by JP Morgan in a $10bn rescue deal. This also marks a huge consolidation of the US banking market: JP Morgan will now control over 10% of American banking deposits.

- The events at First Republic mark the fourth banking failure in recent history (three of which have taken place in the US), as casualties emerge in response to major policy changes at the world's leading central banks. After years of ultra-low interest rates, central bankers are now attempting to move to a more 'normalised' regime, resulting in knock-on effects for more vulnerable members of the banking world. Unfortunately, some casualties were inevitable during this period of transition. In the case of First Republic, failure was triggered as customers left for bigger banks and lending standards were tightened.

- We are acutely aware that market events like this can be unnerving to our customers. However, we continue to believe that these events will prove to be fairly isolated – affecting a relatively small number of banks – rather than posing a more systemic risk to the banking sector.

- Turning briefly to China, the latest private sector survey data points to a stilted recovery. The Purchasing Managers' Index (PMI) for April placed the manufacturing sector in unexpectedly contractionary territory, while service sector readings remained relatively high. China's recovery may be taking its time, but companies are raising funds by issuing shares on the stock market (via IPOs, or Initial Public Offers): around $19.5bn has been raised by Chinese companies in 2023 so far – much more than in the US or Europe.

Market moves

Share prices stuttered last week, particularly in developing economies, which have struggled to keep up with their developed market counterparts so far in 2023.

Bond markets continued to strengthen, with bond prices rising and bond yields (which move in the opposite direction to prices) falling.

The oil price fell, reflecting concerns about future economic growth (and therefore the likely levels of demand for energy).

What to look out for this week

Despite a mixed bag of data (pointing to weaker inflation and uneven economic growth), the European Central Bank is predicted to increase interest rates across the English Channel this week.

Corporate earnings season continues, with large US-listed businesses reporting on their latest financial results and company outlooks. This week, investors will be especially interested in hearing an update from tech giant Apple.

Watch out for further negotiations on the US 'debt ceiling' (the limit on the amount of money the US government can borrow), as the deadline approaches in June.

Market performance (as at 28 April 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,260.3	-0.4%	3.6%	6.9%
MSCI United Kingdom Mid Cap	1,286.2	0.9%	4.1%	15.3%
MSCI United Kingdom Small Cap	377.0	1.0%	3.7%	5.5%
MSCI World (GBP)	2,207.0	-0.8%	0.1%	5.1%
S&P 500 (GBP)	4,167.9	-0.5%	-0.1%	4.5%
MSCI Japan (GBP)	1,263.3	-1.6%	-1.3%	2.2%
MSCI Europe ex-UK (GBP)	1,651.2	-1.0%	2.3%	11.7%
MSCI Pacific ex-Japan (GBP)	1,643.1	-2.3%	-1.4%	-2.0%
MSCI Emerging Markets (GBP)	58,869.7	-1.6%	-2.7%	-1.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,012.1	0.2%	-1.8%	0.4%
BoA Merrill Lynch Index-Linked Gilts	429.7	-0.7%	-4.1%	0.0%
BoA Merrill Lynch £ Corporate	385.2	0.3%	0.2%	2.7%
Commodities				
Oil (West Texas Intermediate, GBP)	$77.9	-3.2%	-0.2%	-8.3%
Gold (GBP)	$1973.7	-0.6%	-1.5%	4.6%
S&P / GSCI (GBP)	3,346.6	-3.0%	-2.4%	-9.7%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.