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Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

US inflation data and Fed meeting likely to set the tone for the summer

Key takeaways

After the central banks in Australia and Canada caught markets off guard last week with surprise hikes in their respective interest rates, all eyes this week are on the US Federal Reserve's (Fed) rate announcement on Wednesday.

- Markets were expecting the Reserve Bank of Australia and the Bank of Canada to keep their interest rates steady, but the decisions to hike by 25 basis points suggest that central bankers in both countries are still clearly worried by persistent inflationary pressures, particularly in the services sector. As a result, markets have increased the probability of a further rate hike by the Fed this week. A key factor will be the US inflation data (the core CPI) released tomorrow – if this shows a meaningful fall in inflation, policymakers may decide to take a more patient approach and keep rate hikes on hold this month.
- In a relatively light week for economic news, the data that was released served up some surprises: in the US, the jobless claims data – a weekly count of newly-filed unemployment claims - rose to their highest level since October 2021, at 261,000 for the period ended 3 June, an indication perhaps of some softening in the US labour market. If this trend continues it would reduce pressure on the Fed to continue to tighten monetary policy with more interest rate increases. In addition, the ISM services index (the Institute for Supply Management's gauge of prices paid for services) for May moderated to its lowest level since May 2020, falling to 50.3, indicating virtually stalled growth (levels over 50 indicate expansion).
- Elsewhere, in Europe data showed that the Eurozone recorded a technical winter recession as two consecutive quarters - the last quarter of 2022 and first of 2023 – both reported negative growth. Flat retail sales in the region in April indicated that consumption remained weak, while Germany's industrial sector also continued to deteriorate. Despite some easing of inflationary pressures, European Central Bank (ECB) officials have signalled that interest rates are likely to rise again at their meeting on Thursday, although there appears to be less unanimity on implementing rate increases in subsequent months.

Market moves

Stock markets were relatively subdued last week in sterling terms, although the S&P500 index in the US did break into 'bull market territory' in dollar terms, up more than 20% off the lows last October. Market gains continued to be driven by the shares of large technology companies.

Bonds had a more difficult week following the surprise rate hikes in Australia and Canada, however, UK index-linked government bonds performed well.

Oil prices weakened further, as worries that sluggish global economic growth could reduce energy demand outweighed Saudi Arabia's pledge to deepen cuts in output.

What to look out for this week

Tuesday's US inflation data (core CPI) and Wednesday's announcement on interest rates from the US Federal Reserve are the two key events this week.

Also, look out for policy decisions from the European Central Bank on Thursday and the Bank of Japan on Friday.

Market performance (as at 9 June 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,164.9	-0.4%	1.8%	3.2%
MSCI United Kingdom Mid Cap	1,240.3	-0.9%	1.2%	11.9%
MSCI United Kingdom Small Cap	369.8	-0.3%	2.3%	3.9%
MSCI World (GBP)	2,253.9	-0.3%	1.6%	7.3%
S&P 500 (GBP)	4,298.9	-0.4%	1.4%	7.9%
MSCI Japan (GBP)	1,366.6	1.5%	3.3%	9.1%
MSCI Europe ex-UK (GBP)	1,623.0	-1.1%	1.0%	8.2%
MSCI Pacific ex-Japan (GBP)	1,583.0	1.2%	3.1%	-3.6%
MSCI Emerging Markets (GBP)	60,299.2	1.1%	3.1%	1.2%
Bonds				
BoA Merrill Lynch Conventional Gilts	976.7	-0.3%	0.0%	-3.4%
BoA Merrill Lynch Index-Linked Gilts	410.5	1.4%	1.8%	-4.2%
BoA Merrill Lynch £ Corporate	377.7	-0.2%	0.0%	0.3%
Commodities				
Oil (West Texas Intermediate, GBP)	\$70.2	-3.0%	1.5%	-16.3%
Gold (GBP)	\$1960.3	-0.9%	-1.7%	3.3%
S&P / GSCI (GBP)	3,199.6	-0.8%	1.8%	-12.5%

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