

Weekly bulletin: Have pricing pressures reached their peak?

Key takeaways

Financial markets have remained relatively sanguine about the latest inflation data, but central banks are navigating tricky waters.

- US inflation (as measured by CPI, or the Consumer Price Index) surged again in March. Prices were judged to have risen by 1.2% versus February, and by 8.5% versus March 2021 – the biggest annual change since the early 1980s. Financial markets took the news in their stride, with bond yields falling slightly (bond prices, which move inversely to yields, rose a little). This muted market response reflects investor expectations that we have likely seen the peak in year-on-year US inflation figures, and April's numbers are expected to be lower.
- UK inflation also accelerated in March, with overall prices rising by 7% versus the previous year. This reading was well above expectations. The UK is likely to see a further pickup in inflation in the services sector in April, when VAT cuts are reversed and firms change their prices to mark the start of a new fiscal year. In the UK, inflation is expected to reach its peak in May, before falling back gradually towards the end of the year. Forecasting inflation is difficult, but we do expect it to ultimately settle at a level higher than we have become used to over the past decade.
- Sticking with the topic of pricing pressures, inflation hit a record high of 7.5% in March in continental Europe. Last week's meeting at the European Central Bank (ECB) therefore marked an attempt to navigate policy decisions in newly difficult circumstances – besides higher inflation, Europe's outlook for economic growth has been weakened by the war in Ukraine. Against this backdrop, the ECB confirmed that it would continue to wrap up a number of its multi-year, ultra-supportive policies, and is expected to begin hiking its interest rates later this year. While the ECB remains well behind its US and UK counterparts in raising borrowing costs, this withdrawal of stimulus underlines its increased focus on tackling inflation.
- Over the weekend, authorities in China lowered the amount of cash banks must keep on their balance sheets (the RRR, or reserve requirement ratio) from 8.4% to 8.1%. This signalled a supportive stance, but the cut was smaller than in the past, suggesting that China's policymakers are acting cautiously in the face of inflation issues and growth concerns.

Weekly market moves

It was a challenging week for share prices, with a variety of factors (including the war in Ukraine and the outlook for China's economic growth) weighing on investors' appetite for riskier asset types.

Against this risk-averse backdrop, the gold price made small positive gains. Meanwhile, reflecting the geopolitical picture, the oil price climbed higher.

What to look out for this week

A new corporate earnings season began last week, with major US-listed businesses announcing their businesses' results for the first quarter of 2022, and their outlooks for the period ahead. As usual, the big US banks led the way, and delivered decidedly mixed results. 67 more companies are due to report this week.

As well as the second round of the French presidential election, investors will be keeping an eye on a number of public speaking events featuring policymakers from the US Federal Reserve (including Chair Powell) for clues about the central bank's next steps.

Market moves (as at 18 April 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,187.8	-0.8%	1.7%	6.5%
MSCI United Kingdom Mid Cap	1,272.2	-0.8%	-1.1%	-12.5%
MSCI United Kingdom Small Cap	419.2	-0.4%	0.1%	-11.8%
MSCI World (GBP)	2,281.2	-2.0%	-2.1%	-4.3%
S&P 500 (GBP)	4,391.7	-2.2%	-1.9%	-3.7%
MSCI Japan (GBP)	1,157.7	-2.7%	-6.4%	-10.0%
MSCI Europe ex-UK (GBP)	1,586.3	-1.3%	-1.7%	-8.8%
MSCI Pacific ex-Japan (GBP)	1,690.1	-1.4%	-1.1%	5.6%
MSCI Emerging Markets (GBP)	63,961.7	-1.8%	-1.8%	-6.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,212.4	-1.5%	-2.9%	-10.1%
BoA Merrill Lynch Index-Linked Gilts	581.7	-1.7%	-5.7%	-11.1%
BoA Merrill Lynch £ Corporate	427.4	-1.1%	-1.9%	-8.7%
Commodities				
Oil (West Texas Intermediate, GBP)	\$108.2	9.9%	8.9%	49.5%
Gold (GBP)	\$1963.3	1.0%	2.2%	13.1%
S&P / GSCI (GBP)	3,982.1	8.0%	9.0%	49.3%

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