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WEEKLY BULLETIN

# Central banks take aim, and fire

## Key takeaways

Central bank action dominated media headlines and financial markets last week. Policymakers from around the world are aiming to tackle rising inflation expectations, unwinding the ultra-supportive stances adopted in recent years.

- Last Wednesday, ending a long spell of speculation, the US Federal Reserve Bank (Fed) announced that it would raise its benchmark interest rate by three quarters of a percent. Fed interest rates are stated in ranges: the range had previously been set at 0.75%-1%, and has now been raised to 1.5%-1.75%. Normally, the Fed increases its range in increments of a quarter of a percent, so this was effectively three rate hikes in one, and was more dramatic than anticipated.

- A matter of hours later, in a surprise move, Switzerland's central bank announced its first interest rate increase in almost 15 years. Swiss interest rates have been in negative territory for some time, but have now moved from -0.75% to -0.25%. Central bank policymakers in Switzerland typically take their lead from the European Central Bank, but on this occasion made the unusual decision to act first. The following day, on Thursday, the Bank of England also raised interest rates, from 1% to 1.25%.

- Meanwhile, the Europe Central Bank (ECB) is reportedly working on measures to support debt sustainability in peripheral Europe – nations like Italy and Greece could struggle to service their government debt repayments as interest rates rise. Last week, the ECB said it was serious about lowering fragmentation risk within the single currency region, and is accelerating the design of a new anti-fragmentation instrument. In effect, this would allow the ECB to press on with interest rate hikes without fearing debt sustainability issues in the periphery. Such a supportive approach is welcome news for the region's economic outlook.

- This flurry of activity comes as central banks attempt to play catch-up with rising expectations surrounding inflation. In doing so, central bankers are not attempting to influence inflation in the immediate term (indeed, they can do little to alter factors like the supply chain issues pushing prices higher), but are aiming to stop inflation from driving longer-term decision-making by workers, consumers and businesses.

- Financial markets are in the process of digesting this regime change by central banks, and history has shown that this can take time, but usually these periods are temporary. Indeed, much of the pain may already have been felt by investors, and we hope that we now begin to see increasingly attractive investment opportunities.

## Market moves

In another challenging week for most areas of financial markets, precious metals like gold and silver were the only major asset types to deliver positive short-term performance.

This is a tricky period to hold one's nerve, but environments like this can allow areas of value to emerge.

## What to look out for this week

An early look at the latest private sector survey data (the Purchasing Managers' Index, or 'PMI') could indicate how successful central banks have been (so far) in their efforts to slow economic activity.

A number of central bankers are set to speak publicly this week, and discuss their recent policy decisions. Most notably, Chair Powell, of the US central bank, will testify before US Congress on Wednesday and Thursday, delivering his biannual update to US politicians.

## Market performance (as at 17 June 2022)

| | Index Levels | Last Week | Month to Date | Year to Date |
|---|---|---|---|---|
| **Equity** | | | | |
| MSCI United Kingdom | 2,024.0 | -4.1% | -7.4% | -0.7% |
| MSCI United Kingdom Mid Cap | 1,107.1 | -4.0% | -8.1% | -23.1% |
| MSCI United Kingdom Small Cap | 371.5 | -3.8% | -7.7% | -21.3% |
| MSCI World (GBP) | 1,947.6 | -4.6% | -7.8% | -13.5% |
| S&P 500 (GBP) | 3,674.8 | -4.5% | -7.9% | -13.6% |
| MSCI Japan (GBP) | 1,124.5 | -5.4% | -6.0% | -12.4% |
| MSCI Europe ex-UK (GBP) | 1,396.1 | -3.9% | -8.1% | -15.8% |
| MSCI Pacific ex-Japan (GBP) | 1,508.6 | -5.5% | -7.1% | -2.8% |
| MSCI Emerging Markets (GBP) | 59,604.7 | -3.4% | -3.4% | -8.3% |
| **Bonds** | | | | |
| BoA Merrill Lynch Conventional Gilts | 1,133.8 | -1.1% | -3.3% | -16.0% |
| BoA Merrill Lynch Index-Linked Gilts | 502.7 | -3.6% | -5.3% | -23.1% |
| BoA Merrill Lynch £ Corporate | 399.5 | -1.7% | -3.8% | -14.6% |
| **Commodities** | | | | |
| Oil (West Texas Intermediate, GBP) | $109.6 | -8.0% | -0.9% | 61.7% |
| Gold (GBP) | $1841.6 | 2.0% | 3.6% | 13.4% |
| S&P / GSCI (GBP) | 4,001.4 | -4.6% | 1.5% | 60.4% |

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.




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