Handelsbanken
Asset Management

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Weekly bulletin: Investors react to lift-off for US interest rates

Key takeaways

Despite the ongoing conflict in Ukraine, the market mood last week was always going to be dominated by central bank news. Policymakers duly delivered, with interest rate rises in both the US and UK. Stock markets welcomed the news, but bond markets were more wary.

- The Bank of England voted to increase interest rates by 0.25% to 0.75% – the first time the Bank has raised rates at three successive meetings in over two decades. However, the eyes of investors were more keenly focused on the US Federal Reserve Bank (Fed), where policymakers also voted to increase rates by 0.25% – the first US rate hike since 2018.
- The stock market's immediate reaction to the Fed's announcement was positive, with investors seemingly reassured by policymakers' conviction in the strength of the underlying economy, and their focus on tackling short-term inflationary pressures. For now at least, stock markets appear convinced that the Fed will be able to raise interest rates at every subsequent policymaker meeting this year, and also ease pricing pressures without increasing unemployment.
- Bond markets, though, looked more uneasy. The implication here appeared to be that the risk of a policy misstep from the Fed was increasing. Following the Fed's announcement, a number of US bond yield curves came close to 'inverting' – when this happens, the yields offered on longer-duration bonds become lower than the yields on shorter-duration bonds. A signal like this typically points to bond market concerns that central banks will need to cut interest rates in the future, in response to falling growth/recession. While yield curve inversions are not perfect predictors of recessions, they are worth keeping in mind, and we are monitoring the economic situation closely.
- Our view remains that markets can digest central banks stepping back a little from their very supportive policies, and indeed that this is required in order to keep inflation in check. Last week's interest rate hikes in the US and UK were in line with our expectations, and wider financial market predictions.
- It's been a short while since we covered the latest COVID-19 news in our Weekly Bulletin, with the pandemic taking a backseat behind Russia-Ukraine news and economic updates in the minds of investors. However, regional outbreaks of new COVID-19 cases have taken place over the past few weeks, with large jumps in cases reported last week across Europe and Asia. Despite rising case numbers, deaths and hospitalisations are not increasing meaningfully (though Hong Kong appears to be an exception to this rule). We expect that there will continue to be intermittent outbreaks of new cases around the world, but do not anticipate broad-based lockdowns to return.

Weekly market moves

In a positive week for riskier asset types, stock markets performed strongly, particularly in Europe and the US.

The oil price – though still high – fell for the second week in a row, as concerns increased around the negative impact on growth from the Russia-Ukraine conflict affecting forecasts for future demand, especially amid higher inflation.

Gold had one of its worst weeks in almost a year, with rising US interest rates making this traditional investor safe haven (which is priced in US dollars and does not offer any yield) look less attractive.

What to look out for this week

An early look at March's private sector survey data (Purchasing Managers Index) will be released in the coming week, providing a first look at economic conditions since the outbreak of the war in Ukraine.

Consumer sentiment data for the US, UK, and Euro area are also due for release.

Market moves (as at 18 March 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,113.4	3.5%	0.0%	2.7%
MSCI United Kingdom Mid Cap	1,313.0	5.7%	-0.6%	-10.1%
MSCI United Kingdom Small Cap	424.2	5.3%	0.0%	-11.1%
MSCI World (GBP)	2,308.5	5.4%	3.2%	-3.8%
S&P 500 (GBP)	4,463.1	5.5%	4.1%	-3.4%
MSCI Japan (GBP)	1,170.3	3.8%	-0.2%	-5.4%
MSCI Europe ex-UK (GBP)	1,593.8	6.3%	1.0%	-8.0%
MSCI Pacific ex-Japan (GBP)	1,670.9	4.0%	5.8%	3.7%
MSCI Emerging Markets (GBP)	64,625.7	2.9%	-2.1%	-6.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,260.0	0.0%	-1.3%	-6.6%
BoA Merrill Lynch Index-Linked Gilts	618.1	-3.1%	-2.5%	-5.5%
BoA Merrill Lynch £ Corporate	436.3	0.4%	-1.0%	-6.8%
Commodities				
Oil (West Texas Intermediate, GBP)	$104.7	-4.8%	11.0%	42.9%
Gold (GBP)	$1935.8	-2.8%	3.3%	10.2%
S&P / GSCI (GBP)	3,700.5	-2.7%	11.9%	37.2%

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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