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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Economic resilience fuels expectations that rates will remain higher for longer

Key takeaways

Stronger-than-expected data continued to stoke concerns over persistent inflationary pressures on both sides of the Atlantic, while different worries emerged over weak growth in China.

- In the US, retail sales and industrial production data for July came in higher than expected adding to concerns that the US economy may still be too strong and continuing to fuel inflationary pressures. The release of the minutes from the US central bank's July policy meeting raised questions about how policymakers would respond to these continued growth signals. Investors indicated that they see an increased chance of further interest rate hikes by the US central bank this year and are paring back expectations for rate cuts in 2024.

- In the UK, inflation and wages growth came in stronger than expected keeping the Bank of England on track for another interest rate rise at its next policy meeting in September. Annual UK inflation slowed in July to 6.8% (from 7.9% in June), driven lower by falling energy and food prices, but underlying price pressures remained strong, with the core rate, which excludes food, energy, alcohol and tobacco, staying at 6.9%. Prices in the services sector, which the Bank sees as the best predictor of underlying domestic inflation, quickened to 7.4%, the highest level since March 1992. Average weekly earnings (excluding bonuses) climbed 7.8% in the three months to the end of June, up from 7.4% in the three months to the end of May. While there are signs that the UK jobs market is cooling with unemployment rising to 4.2%, a further acceleration in wages growth combined with subbornly high inflation in the services sector, leaves the Bank with few options, with investors expecting three more rate rises from here.

- Elsewhere, concerns about China continue to mount. Data for July showed that growth in industrial production, retail sales and investment slowed further, and that the property sector was coming under increasing pressure. Property sales and investment were very weak and property prices continued to fall increasing worries about defaults from debt-laden developers. Unemployment rose to 5.3% and youth unemployment which was already at 21% would have likely increased further as well, although the National Bureau of Statistics has stopped publishing the data pending a review. Response from authorities to the slowdown has been muted so far, however, the central bank did last week cut its medium-term lending facility rate by 15 basis points to 2.5%, its largest reduction since 2020, with further policy stimulus measures likely.

Market moves

There was a global sell-off in both stock and bond markets last week on concerns about further central bank rate hikes, ongoing upwards pressure on bond yields (downwards pressure on bond prices) and problems in China. Primarily though, these moves have been driven by the growing realisation that interest rates are set to remain higher for longer.

Oil prices fell back a little reflecting reduced investor appetite for risk, while sterling gained against major currencies on the expectation of further interest rate rises.

What to look out for this week

The US central bank's Jackson Hole symposium running from Thursday to Saturday will be the key highlight this week. The focus will be on how officials and in particular Chair Powell, react to the strength of the economy and potential inflation risks ahead of their September policy meeting.

Other data releases of note are the global PMIs - indices which provide an indication of the direction of economic trends in the manufacturing and service sectors, durable goods orders in the US, and sentiment indicators across Europe.

Market performance (as at 18 August 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,074.4	-3.4%	-4.9%	-0.3%
MSCI United Kingdom Mid Cap	1,199.5	-3.7%	-6.4%	8.8%
MSCI United Kingdom Small Cap	352.3	-3.8%	-5.2%	-0.4%
MSCI World (GBP)	2,268.1	-2.6%	-4.3%	6.8%
S&P 500 (GBP)	4,369.7	-2.2%	-3.6%	8.7%
MSCI Japan (GBP)	1,365.9	-3.4%	-5.1%	3.5%
MSCI Europe ex-UK (GBP)	1,590.2	-3.2%	-4.8%	6.3%
MSCI Pacific ex-Japan (GBP)	1,542.9	-4.6%	-7.8%	-9.7%
MSCI Emerging Markets (GBP)	58,943.7	-3.4%	-6.7%	-2.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	947.5	-1.3%	-3.3%	-6.3%
BoA Merrill Lynch Index-Linked Gilts	390.7	-2.4%	-5.7%	-8.8%
BoA Merrill Lynch £ Corporate	373.5	-1.1%	-2.2%	-0.9%
Commodities				
Oil (West Texas Intermediate, GBP)	$81.3	-2.4%	0.4%	-4.2%
Gold (GBP)	$1893.7	-1.3%	-2.9%	-1.3%
S&P / GSCI (GBP)	3,536.8	-1.5%	-0.1%	-4.4%

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.

Important Information