

11 July 2022



Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

Can central banks really engineer a gentle slowdown?

Key takeaways

Investors have been preoccupied by the prospect of recession, but a spate of economic data released last week went against the tide.

- The latest survey data covering China's private sector (Purchasing Managers' Index, or 'PMI') has pointed to an ongoing recovery in economic activity. This mirrors China's recovery following the initial wave of COVID-19 in 2020, and is welcome news for a global economy as it battles against supply chain issues and pricing pressures.
- Meanwhile, a range of data covering developed markets indicated slowing economic activity, with readings either close to equilibrium or suggesting a slower pace of growth. For example, global PMI data remains in expansionary territory, but lower than previous readings. Underlying detail (e.g. new manufacturing orders and manufacturing backlogs) in the US manufacturing sector's PMI data also supports this theory. For the US central bank – which is hoping to engineer a 'soft landing' for the economy by gently slowing activity – this is welcome news.
- At the same time, a number of the factors adding to rising prices may be easing off, including the price of oil and raw materials (like copper), and an improvement in the availability of skilled workers. Such signs of peaking inflation will also be welcomed by the world's leading central banks, as they try to manage pricing pressures in their respective economies.
- Taking a step away from economics and into politics, the UK played host to another round of drama at the helm of government last week, culminating in Prime Minister Boris Johnson's announcement that he will leave the role following another spate of scandals for his ruling Conservative Party. Within financial markets, local currencies tend to provide the conduit for political noise, and this was true of sterling last week, which remained relatively resilient given the circumstances but still suffered versus international peers. Perhaps counterintuitively, a weaker sterling can be helpful for UK investors in large companies with overseas earnings, as financial returns received in overseas currencies are effectively worth more once translated back into sterling.

Market moves

Fixed income markets gave back some of their recent gains, with inflation-linked bonds hardest hit.

It was a better week for riskier asset types like shares and high-yielding corporate debt.

Commodity prices – which have enjoyed a stellar 2022 overall – continued to ease off.

What to look out for this week

US inflation data (the Consumer Price Index or CPI) covering June will be released on Wednesday.

Following the end of the second quarter of the year on 30 June, companies will now begin releasing their latest quarterly earnings results, and their outlooks for the period ahead. Financial markets will be watching closely, to see if companies begin to move their earnings projections downwards, anticipating slower economic activity ahead.

Market performance (as at 8 July 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,076.8	0.4%	0.4%	2.0%
MSCI United Kingdom Mid Cap	1,135.3	2.5%	2.6%	-20.9%
MSCI United Kingdom Small Cap	371.6	1.9%	1.7%	-21.2%
MSCI World (GBP)	2,047.2	1.6%	3.3%	-8.2%
S&P 500 (GBP)	3,899.4	1.8%	4.1%	-7.1%
MSCI Japan (GBP)	1,155.7	1.6%	1.9%	-9.2%
MSCI Europe ex-UK (GBP)	1,437.5	0.2%	0.9%	-14.1%
MSCI Pacific ex-Japan (GBP)	1,560.4	2.2%	2.0%	1.5%
MSCI Emerging Markets (GBP)	59,791.8	0.8%	1.2%	-6.9%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,148.7	-1.9%	-0.1%	-14.9%
BoA Merrill Lynch Index-Linked Gilts	502.0	-3.9%	-0.6%	-23.2%
BoA Merrill Lynch £ Corporate	402.5	-1.0%	0.2%	-14.0%
Commodities				
Oil (West Texas Intermediate, GBP)	\$104.8	-5.2%	-1.8%	56.7%
Gold (GBP)	\$1738.2	-3.5%	-3.4%	8.4%
S&P / GSCI (GBP)	3,723.8	-2.8%	-0.2%	51.1%

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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Registered Head Office: No.1 Kingsway, London, WC2B 6AN. Registered in England No: 4132340. www.wealthandasset.handelsbanken.co.uk
Telephone: 020 7045 2600