


WEEKLY BULLETIN

Developed economies are still growing, but slowing

Key takeaways

In a bumper week for economic data, private sector survey data pointed to ongoing economic growth, but at a slower pace.

- The US economy is still growing, but the pace of that growth is easing off. This is according to the latest private sector survey data: the Purchasing Managers' Index, or 'PMI'. Historically, the PMI has been an excellent indicator of US economic activity, and the most recent reading suggests that while both the manufacturing and service sectors in the US continue to expand, they are doing so at a slower rate.
- This sentiment was echoed by Friday's US labour market report for May – historically another excellent signal for activity in the US economy. May's report showed that employment in the US remains strong, with 390,000 new jobs recorded last month, but the pace of recruitment is beginning to cool. The number of people registering as newly jobless remained at levels consistent with healthy economic growth.
- Meanwhile in Europe, business survey data (the PMI again) remained comfortably in expansionary territory. However, financial markets are sending signals that they believe it is only a matter of time before the 'cost of living crisis' crimps consumer spending, dramatically slowing economic activity.
- Indeed, record high inflation is creating real challenges for the European Central Bank (ECB). All central banks face a delicate balancing act as they look to cool economic growth to contain inflation, without sending the economy into recession, but the ECB must attempt this for 19 different economies at once. Interest rates in Europe remain unchanged, unlike in other developed economies, and the ECB continues to pump liquidity into the financial system by buying financial assets ('quantitative easing'). Record pricing pressures are pushing the ECB towards decisive action, with expectations growing for a large interest rate hike in July.
- Across the English Channel, UK house price data for May was surprisingly strong, despite signs that the housing market is beginning to slow down. According to the property portal Zoopla, sellers cut the asking price for more than 1 in 20 homes last month, by an average of 9%. In April, mortgage approvals in the UK also fell to their lowest levels since June 2020. However, according to the Nationwide Building Society, house prices gained 0.9% in May – a tenth consecutive monthly increase. So while the market may be slowing down, it does so from an extremely strong position.

Market moves

The traditional areas of financial markets – shares and bonds – began June as they ended May, with mixed performances across regional stock markets, and weak performances in bond markets. (Bond yields, which move inversely to bond prices, have risen.)

The oil price continued to head upwards, as the EU announced its intention to broadly phase out its reliance on Russian energy (Hungary has dissented, but a dramatic drop in European purchases of Russian oil is expected by the end of 2022).

What to look out for this week

A final reading for private sector survey data (the aforementioned 'PMI') covering the UK services sector is due for release on Wednesday. The decline of the UK services sector PMI in recent months has been more pronounced than its US and European equivalents, albeit UK services are falling from a higher level.

This week's meeting of leading policymakers at the European Central Bank is expected to prepare the ground for an interest rate hike at the next meeting (in July).

Market performance (as at 3 June 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,168.5	-0.5%	-0.8%	6.3%
MSCI United Kingdom Mid Cap	1,196.9	-1.2%	-1.0%	-17.2%
MSCI United Kingdom Small Cap	400.3	-0.6%	-0.7%	-15.4%
MSCI World (GBP)	2,157.5	-0.1%	0.3%	-6.0%
S&P 500 (GBP)	4,108.5	-0.4%	0.1%	-6.1%
MSCI Japan (GBP)	1,189.3	0.4%	0.0%	-6.8%
MSCI Europe ex-UK (GBP)	1,530.1	0.3%	0.3%	-8.1%
MSCI Pacific ex-Japan (GBP)	1,643.4	2.2%	1.5%	6.1%
MSCI Emerging Markets (GBP)	61,968.0	2.5%	-0.9%	-5.9%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,172.3	-2.2%	-0.1%	-13.1%
BoA Merrill Lynch Index-Linked Gilts	538.4	-3.1%	1.5%	-17.7%
BoA Merrill Lynch £ Corporate	414.6	-1.2%	-0.1%	-11.4%
Commodities				
Oil (West Texas Intermediate, GBP)	\$118.9	4.2%	4.6%	70.7%
Gold (GBP)	\$1844.9	0.4%	1.0%	10.5%
S&P / GSCI (GBP)	4,193.5	2.7%	3.5%	63.5%

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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