



## WEEKLY BULLETIN

## Will high inflation frighten the Fed?

## Key takeaways

US inflation data came in higher than financial markets had anticipated, but may not change plans at the US central bank. Meanwhile, the search is on for the next UK prime minister.

- Prices in the US economy were 9.1% higher in June 2022 than in June 2021, according to the Consumer Price Index (CPI). This was above expectations of 8.8%. The figure represents 'headline' inflation, which includes items with volatile pricing like energy and food. Energy costs accounted for more than half of the jump, but shelter (based on the cost of rent) also drove a significant portion of the increase, and marked the biggest annual increase in shelter costs since 1991.
- Financial markets reacted badly to this higher-than-expected inflation news. Investors anticipated that the data would cause the US Federal Reserve Bank (Fed) to raise rates even more sharply than predicted at their next meeting – taking rates from the current range of 1.5%-1.75% all the way up to 2.5%-2.75%. However, a number of the Fed's leading committee members have since signalled that this is unlikely, pointing instead to a hike to 2.25%-2.5%.
- Last week also saw the US dollar reach 'parity' with the euro for first time in 20 years, meaning that \$1 was equal in value to €1. This is the result of various factors, including the European energy dependence issues highlighted by the war in Ukraine (driving the euro lower), and the fact that the US central bank is expected to hike interest rates more than other central banks (pushing the dollar higher).
- This is concerning for the euro area, as when a currency weakens on the international stage, it makes overseas imports more expensive for that country, as the imported goods are priced in a stronger overseas currency. At the moment, the euro area is therefore effectively importing inflation, whereas the US – with its strong currency, making overseas payments cheaper – is doing the opposite. This should ultimately help the inflation backdrop in the US. It's worth noting that sterling is also weakening against the dollar, though for now it remains some way off parity (£1 is still worth more than \$1).
- In the UK, the race to find the next leader of the Conservative Party (and therefore the next prime minister) is underway, with erstwhile chancellor Rishi Sunak in pole position to replace Boris Johnson at the helm. There are currently five candidates, and the winner is not due to be announced until 5 September.

## Market moves

In a mixed week in global stock markets, the US market outperformed while shares in developing economies underperformed.

In bond markets, developing market debt also lagged behind conventional bond markets.

The oil price fell further. 2022 has still been a very strong year for the oil price so far, but this further step back follows the pattern which has emerged in recent weeks.

## What to look out for this week

Corporate earnings season is underway – a time for large US-listed businesses to announce their latest quarterly financial results and their outlooks for the period ahead. So far, a number of major financials firms (JP Morgan, Morgan Stanley and BlackRock) have reported disappointing results. This week, we are due to hear updates from a range of businesses, including Netflix, Tesla and Twitter.

The European Central Bank will announce its latest policy decision on Thursday, and is expected to raise interest rates for the first time since 2011.

## Market performance (as at 15 July 2022)

	Index Levels	Last Week	Month to Date	Year to Date
<b>Equity</b>				
MSCI United Kingdom	2,067.5	-0.4%	-0.1%	1.6%
MSCI United Kingdom Mid Cap	1,135.8	0.1%	2.7%	-20.9%
MSCI United Kingdom Small Cap	369.9	-0.4%	1.2%	-21.5%
MSCI World (GBP)	2,026.0	0.1%	3.4%	-8.0%
S&P 500 (GBP)	3,863.2	0.6%	4.6%	-6.6%
MSCI Japan (GBP)	1,159.9	0.0%	1.9%	-9.2%
MSCI Europe ex-UK (GBP)	1,423.9	-0.2%	0.7%	-14.2%
MSCI Pacific ex-Japan (GBP)	1,531.6	-1.1%	0.9%	0.4%
MSCI Emerging Markets (GBP)	57,947.1	-2.2%	-1.1%	-9.0%
<b>Bonds</b>				
BoA Merrill Lynch Conventional Gilts	1,152.8	0.4%	0.2%	-14.6%
BoA Merrill Lynch Index-Linked Gilts	500.7	-0.3%	-0.9%	-23.4%
BoA Merrill Lynch £ Corporate	404.7	0.5%	0.7%	-13.5%
<b>Commodities</b>				
Oil (West Texas Intermediate, GBP)	\$97.6	-7.3%	-7.2%	48.1%
Gold (GBP)	\$1706.2	-0.4%	-3.8%	8.0%
S&P / GSCI (GBP)	3,577.3	-2.5%	-2.7%	47.4%

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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