Handelsbanken
Asset Management

20 December 2021

Weekly bulletin: Deck the halls with interest rate rises

Key takeaways

As governments continued to respond to a new COVID-19 variant, central banks made further steps towards undoing the emergency support measures introduced earlier in the pandemic.

- The Netherlands has re-entered full population lockdown amid ongoing outbreaks of the new Omicron variant of the COVID-19 virus. Death rates as a result of the virus remain fairly steady globally, though pockets of pressure are building. Europe (both the mainland and the UK) once again finds itself at the epicentre of the virus, with London hospital admissions starting to move upwards, and scientific advisers urging further restrictions. Any significant policy changes in the UK are expected to be introduced after Christmas, but the situation is moving very quickly.
- So far, central banks have not been swayed by the Omicron variant, with policymakers around the world actually taking further steps to reduce the extraordinary measures introduced in the earlier stages of the pandemic. Last week, the US Federal Reserve Bank (Fed) doubled the pace at which it will reduce its $120bn-a-month bond-buying programme, that will end in March rather than in June 2022 as originally planned. Projections are now for three interest rate hikes in the US next year. In Europe, the European Central Bank reduced its asset purchase programme, while the central banks in the UK and Norway raised interest rates. Nine emerging economies also raised rates, while the Bank of Japan announced that it will remove COVID-19 support measures for larger firms in March 2022.
- These steps forward in central bank policy are likely to have been influenced in part by higher headline inflation data. The latest figures showed a continued surge in producer prices, though some leading indicators are now changing direction. Our own view is that while pricing pressures will remain elevated for a while longer, they will begin to fade as economies rebalance, supply chains normalise and commodity price rises settle down.
- Meanwhile, a mixed bag of economic data saw German business confidence for December falling sharply, highlighting economic risks as the pandemic escalates once again. UK retail sales for November delivered a surprise bounce upwards, with far stronger readings than expected. Finally, global business survey data (Purchasing Managers Index) remained in expansionary territory in December, but disappointed slightly versus expectations.

This will be our last Weekly Bulletin of 2021. We wish you a safe and happy festive period and look forward to returning on 4 January 2022.

Weekly market moves

Stock markets have come under pressure recently, and last week was another challenging few days.

Shares in Japan and the UK fared better than their global peers, though strength in sterling hurt returns for UK investors in overseas assets. Weakness in China's stock market continued to weigh on share-price performance for emerging markets.

UK bond prices fell on news that the Bank of England were raising interest rates (their yields, which move inversely to prices, rose).

What to look out for this week

In a relatively quiet week for economic data, as we enter the festive period, all eyes will be on the government policy makers tasked with responding to the Omicron variant of the COVID-19 virus.

Market moves (as at 17 December 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,049.4	-0.3%	3.1%	17.7%
MSCI United Kingdom Mid Cap	1,422.1	-1.2%	1.6%	16.7%
MSCI United Kingdom Small Cap	461.6	-0.9%	0.7%	10.6%
MSCI World (GBP)	2,396.3	-1.8%	1.0%	22.4%
S&P 500 (GBP)	4,620.6	-2.2%	1.0%	28.5%
MSCI Japan (GBP)	1,225.2	0.2%	2.5%	6.0%
MSCI Europe ex-UK (GBP)	1,692.9	-1.0%	2.3%	15.7%
MSCI Pacific ex-Japan (GBP)	1,672.7	-1.8%	0.5%	5.3%
MSCI Emerging Markets (GBP)	69,433.5	-2.0%	0.2%	-0.7%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,380.0	-1.3%	-0.6%	-3.2%
BoA Merrill Lynch Index-Linked Gilts	668.4	-3.9%	-3.7%	6.1%
BoA Merrill Lynch £ Corporate	474.7	-0.6%	0.1%	-1.6%
Commodities				
Oil (West Texas Intermediate, GBP)	$70.9	-1.4%	6.9%	51.0%
Gold (GBP)	$1807.7	1.3%	-0.1%	-1.3%
S&P / GSCI (GBP)	2,671.3	-1.0%	3.3%	39.3%

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

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