Handelsbanken
Asset Management

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Weekly bulletin: Inflation is gathering pace

Key takeaways

In a good week for global stock markets, economic data pointed to rising inflation and disappointing UK growth. Financial markets are now watching closely for the central bank reaction.

- US inflation came in at its highest level since 1982 in November, running at multiple times the central bank's target rate. The pickup was fuelled by a range of different factors, but the costs of gasoline, shelter, and vehicles were amongst the largest contributors. Financial markets now expect the US Federal Reserve Bank (due to meet this week) to move quickly in scaling back its economic stimulus measures.
- In Europe, inflation is also gathering pace, having hit a record high in November. Europe has always been a fairly low-inflation part of the world, so the current rate of price rises has not been seen in a generation. The European Central Bank is also due to deliver a policy update later this week.
- Over the three months to the end of October, the UK economy grew by a disappointing 0.8%. Against a backdrop of ongoing supply chain issues and an associated shortage in raw materials, growth has struggled to regain traction in the second half of 2021, and remains below pre-pandemic levels. A weaker economy and spectre of the Omicron variant looming large is likely to dissuade policymakers at the Bank of England from raising interest rates when they meet on Thursday.
- Meanwhile, UK house prices continue to show strength, growing by 8.2% to the end of November versus the same period in 2020. Prices have been boosted by high demand, low mortgage rates and a relatively strong labour market.
- In direct pandemic news, hospitalisations and deaths as a result of the COVID-19 virus are surging in the EU, but appear to be holding steady in the UK. Indeed, the UK is in a better position than much of mainland Europe. This is in part due to disease-acquired immunity (many in the UK have antibodies due to previous infection), as well as good vaccination rates in the most vulnerable age groups. However, vaccination levels are much lower among younger, healthier cohorts, meaning that the virus still has plenty of 'dry tinder' in which to spread in the UK, and infection rates remain high. Importantly, hospital admissions in England are being driven primarily by the unvaccinated.

Weekly market moves

Riskier asset types like shares staged a recovery last week, with all major regional stock markets enjoying a positive period. The US market led the way higher, but the UK and mainland Europe also delivered welcome positive returns.

The price of inflation-linked UK government bonds eased off slightly, while the prices of their conventional counterparts ended the week modestly higher.

After some recent weakness, the oil price rebounded strongly last week.

What to look out for this week

All eyes will be fixed on policymakers at the world's major central banks this week. Announcements are due from the Bank of England, US Federal Reserve Bank and European Central Bank.

Market moves (as at 10 December 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,055.7	2.3%	3.4%	18.1%
MSCI United Kingdom Mid Cap	1,440.6	2.4%	2.9%	18.2%
MSCI United Kingdom Small Cap	466.2	1.1%	1.6%	11.6%
MSCI World (GBP)	2,431.7	3.2%	2.8%	24.6%
S&P 500 (GBP)	4,712.0	3.8%	3.2%	31.4%
MSCI Japan (GBP)	1,217.8	0.6%	2.3%	5.9%
MSCI Europe ex-UK (GBP)	1,701.9	3.2%	3.4%	16.9%
MSCI Pacific ex-Japan (GBP)	1,695.4	2.5%	2.3%	7.2%
MSCI Emerging Markets (GBP)	70,597.2	1.1%	2.2%	1.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,398.6	0.4%	0.8%	-1.9%
BoA Merrill Lynch Index-Linked Gilts	695.2	-0.3%	0.2%	10.4%
BoA Merrill Lynch £ Corporate	477.5	0.4%	0.7%	-1.0%
Commodities				
Oil (West Texas Intermediate, GBP)	$71.7	7.9%	8.4%	53.2%
Gold (GBP)	$1779.8	0.6%	-1.4%	-2.6%
S&P / GSCI (GBP)	2,690.6	3.7%	4.3%	40.6%

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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