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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Investors buoyed by positive news on US inflation

Key takeaways

A sharp fall in US inflation has raised expectations that US interest rates are at or close to their peak, but in the UK, additional underlying inflationary pressures persist.

- US inflation surprised markets with a further fall in June's headline number to an annual rate of 3%. Core services inflation, which excludes housing and is the measure the US central bank, the Federal Reserve (Fed) focuses on, fell to 4.8%, its lowest level since late 2021, and a sign that overall prices are cooling. In further good news, data releases showed that US producer prices were broadly flat in June taking them back to levels last seen in mid-2020, while a consumer sentiment survey for July demonstrated a strong pick-up and renewed optimism, reflecting better labour market conditions and falling inflation. Even though inflation has continued to go down, price increases still remain higher than the Fed's 2% annual target rate, meaning July's much talked about rate hike remains on the cards.
- It was a different story in the UK, where recent data releases are likely to continue to worry the Bank of England as it tries to get inflation under control. UK wages rose more than expected in the period March to May 2023 as regular pay (excluding bonuses) grew an average of 7.3%, while the unemployment rate for the same period rose just marginally to 4%. This tightness in the UK labour market is amplifying wage pressures, and increases expectations that the Bank of England may raise rates by 0.5% or more at their next meeting in August.
- Meanwhile in China, on the opposite side of the coin, investors are increasingly worried by the risk of deflation. Unlike most world economies during the pandemic, China did not adopt policy stimulus measures to the same extent and is now facing a deflation risk despite opening up its economy in recent months. Imports and exports data to and from China continue to disappoint with both confirming that domestic and global demand is slowing. Policymakers continue to debate easing policy to try and stimulate China's economy, but this is unlikely to influence the downward trend in global growth, which still has yet to see the full effects of central banks' interest rate policies feed through.

Market moves

Global stock markets rebounded last week on the positive news on US inflation. UK and European markets were notably strong, in particular shares in UK smaller companies.

Bond prices jumped as longer-term yields retreated on the positive inflation data (bond prices and yields move in opposite directions).

The pound also rallied as the US dollar weakened.

What to look out for this week

Retail sales and various industrial activity indicators will be the key focus in the US this week. There are also data releases on US housing starts and existing home sales, which will be keenly watched as an upward trend in these will indicate a softer landing for the economy.

In the UK, the important release is the monthly Consumer Price Index data particularly following the strong wage data last week.

In China, all eyes will be on the second quarter growth data as investors await more stimulus given the weak growth backdrop in the economy.

Market performance (as at 14 July 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,120.1	2.3%	-1.4%	1.2%
MSCI United Kingdom Mid Cap	1,219.5	3.2%	0.2%	10.4%
MSCI United Kingdom Small Cap	360.2	3.7%	1.2%	1.6%
MSCI World (GBP)	2,335.7	0.9%	-1.4%	7.7%
S&P 500 (GBP)	4,505.4	0.1%	-1.8%	8.6%
MSCI Japan (GBP)	1,373.9	-0.3%	-1.1%	5.9%
MSCI Europe ex-UK (GBP)	1,636.0	3.6%	-0.1%	9.6%
MSCI Pacific ex-Japan (GBP)	1,608.3	3.6%	0.4%	-4.7%
MSCI Emerging Markets (GBP)	61,513.9	2.6%	1.1%	0.5%
Bonds				
BoA Merrill Lynch Conventional Gilts	967.7	1.8%	-0.5%	-4.3%
BoA Merrill Lynch Index-Linked Gilts	405.2	1.1%	-2.7%	-5.5%
BoA Merrill Lynch £ Corporate	375.6	1.8%	0.7%	-0.3%
Commodities				
Oil (West Texas Intermediate, GBP)	$75.4	-0.3%	3.4%	-13.7%
Gold (GBP)	$1953.7	-0.7%	-1.0%	-1.2%
S&P / GSCI (GBP)	3,384.6	0.1%	1.5%	-11.2%

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