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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Interest rate hikes on both sides of the Atlantic

Key takeaways

As expected, central banks in both the US and mainland Europe raised interest rates again last week. When (and where) will they stop?

- The US Federal Reserve raised its benchmark interest rate again last week, moving to a target range of 5.25-5.5%. The latest US inflation data showed that, in June, prices rose at their slowest pace in more than two years. This further supports the idea that we could be approaching the peak in US interest rates this time around, although the continued strength in employment markets calls this into question.
- Europe, on the other hand, is still battling high inflation: the latest data (released today) showed that while overall inflation fell to 5.3% in July, 'core' inflation (which excludes volatile priced items like food and energy) remained unchanged at 5.5%. This will have disappointed Europe's central bankers, fuelling the possibility of higher interest rates for longer in mainland Europe. Last week, the European Central Bank took rates higher, to 3.75%.
- In an unexpected move, the Bank of Japan loosened its controls over the Japanese government bond market. Policymakers allowed the 10-year government bond yield to rise slightly, reaching a 10-year high (as a reminder, bond yields move in the opposite direction to bond prices). Governor Ueda, who took over at the helm of the Bank of Japan earlier this year, said the move was intended to combat the risk of high inflation, which has hit multi-decade highs in Japan, rising to 3.3% in June. Unlike many of its global peers, the Bank of Japan opted to hold interest rates steady – indeed, Japan is the only country in the world which currently has negative interest rates.
- Meanwhile, the latest corporate earnings season continues, with large US-listed businesses announcing their latest results and outlining their outlooks for the period ahead. Around 50% of companies have now delivered their results, and tech giants like Google, Microsoft and Meta (Facebook) have all reported strong earnings. Amazon will announce earnings this week which will be closely watched, as year to date, Amazon's earnings alone accounted for a fifth of all earnings in the 'consumer discretionary' sector (i.e. goods which people want, but do not necessarily need). The strong performance of ultra-large companies has distorted US stock market performance so far in 2023, masking weaker performance in other areas.

Market moves

Stock markets in developed economies had a relatively quiet week, but share prices in developing economies and Japan performed well.

Index-linked bonds in the UK were weaker, responding to news that UK inflation – though still high – fell slightly in June.

What to look out for this week

Policymakers at the Bank of England will meet this week, and will deliver their latest interest rate decision on Thursday.

A range of economic data is also due for release, including updates on inflation and growth in Europe, and US employment market data for July.

Market performance (as at 28 July 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,196.4	0.4%	2.2%	4.8%
MSCI United Kingdom Mid Cap	1,289.4	1.8%	5.9%	16.8%
MSCI United Kingdom Small Cap	371.7	-0.3%	4.6%	4.9%
MSCI World (GBP)	2,377.9	0.8%	2.0%	11.4%
S&P 500 (GBP)	4,582.2	0.9%	1.9%	12.6%
MSCI Japan (GBP)	1,403.4	2.1%	1.7%	8.9%
MSCI Europe ex-UK (GBP)	1,661.4	0.3%	1.8%	11.7%
MSCI Pacific ex-Japan (GBP)	1,638.6	1.1%	2.4%	-2.8%
MSCI Emerging Markets (GBP)	62,505.3	2.7%	4.7%	4.1%
Bonds				
BoA Merrill Lynch Conventional Gilts	977.5	-0.5%	0.5%	-3.3%
BoA Merrill Lynch Index-Linked Gilts	413.4	-0.8%	-0.7%	-3.6%
BoA Merrill Lynch £ Corporate	380.6	0.0%	2.0%	1.0%
Commodities				
Oil (West Texas Intermediate, GBP)	$80.6	4.4%	12.7%	-6.0%
Gold (GBP)	$1954.3	-0.5%	1.0%	0.8%
S&P / GSCI (GBP)	3,562.9	2.8%	8.9%	-4.7%

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