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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Is the strain starting to show in financial markets?

Key takeaways

In a choppy week for financial markets, asset prices reflected nervousness surrounding the journey ahead for interest rates.

- Policymakers at the Bank of England appear to have realised that they may have been too slow to begin raising interest rates following the economic dark days of the COVID-19 crisis. As a result, the Bank will likely now need to continue to raise rates for longer in order to slow economic activity and bring inflation to heel. Investors are predicting a further six hikes from the Bank, implying that rates would peak at around 6.5%.
- The inevitable downside of this course of action is slower economic growth, and investors now appear to believe that recession is inevitable. Last week, there were signs of these predictions flowing through into asset prices in financial markets, with both share prices and bond prices feeling the strain. (Regular readers will know that while we expect economic growth to decelerate from here, we don’t anticipate an extreme downturn akin to the global financial crisis in 2008-9, or the COVID-19 crisis in 2020.)
- While the UK is the unwilling poster child for the ‘recession versus inflation’ conundrum, similar patterns are playing out in other developed market economies too. The US – the world’s largest and arguably most important economy (in terms of its impact on other global markets) is facing a similar quandary. US interest rates are expected to reach a peak of 5.5%, and investors now expect fewer rate cuts in 2024 than previously anticipated.
- Sticking with the US, the latest employment report on Friday did little to assuage investor expectations for higher interest rates. While fewer jobs were added to the economy than expected, the unemployment rate fell further and average hourly earnings rose. We know that the US central bank watches employment markets closely, and the latest results imply there is still some way to go before policymakers can ease back on their quest to dampen employment and slow down economic activity.

Market moves

In an uneasy week, both bond and stock markets were hit hard. European and UK share prices were the hardest hit, while inflation linked bonds also struggled.

The oil price moved higher as Saudi Arabia and Russia announced output cuts, limiting the oil supply.

What to look out for this week

US inflation data (measured by the Consumer Price Index, or CPI) is due for release on Wednesday. Most economic analysts predict that headline inflation (which includes volatile priced items like energy and food) will fall back considerably, but that core inflation (which excludes these items) will see only a slight reduction.

The quarterly ‘earnings season’ for the second quarter of 2023 begins this week. As a reminder, this is the period when large US-listed businesses report on their latest earnings and their outlooks for the period ahead. As ever, the leading US banks are expected to be the first to report.

Market performance (as at 7 July 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,073.0	-3.7%	-3.7%	-1.2%
MSCI United Kingdom Mid Cap	1,181.7	-2.9%	-2.9%	7.0%
MSCI United Kingdom Small Cap	347.6	-2.3%	-2.3%	-2.0%
MSCI World (GBP)	2,280.6	-2.2%	-2.2%	6.8%
S&P 500 (GBP)	4,399.0	-2.0%	-2.0%	8.4%
MSCI Japan (GBP)	1,382.8	-0.8%	-0.8%	6.2%
MSCI Europe ex-UK (GBP)	1,591.5	-3.5%	-3.5%	5.8%
MSCI Pacific ex-Japan (GBP)	1,548.2	-3.0%	-3.0%	-7.9%
MSCI Emerging Markets (GBP)	59,371.0	-1.4%	-1.4%	-2.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	950.9	-2.2%	-2.2%	-5.9%
BoA Merrill Lynch Index-Linked Gilts	400.8	-3.7%	-3.7%	-6.5%
BoA Merrill Lynch £ Corporate	368.9	-1.1%	-1.1%	-2.1%
Commodities				
Oil (West Texas Intermediate, GBP)	$73.9	3.6%	3.6%	-13.6%
Gold (GBP)	$1922.3	-0.3%	-0.3%	-0.6%
S&P / GSCI (GBP)	3,303.8	1.3%	1.3%	-11.3%

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.

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