Handelsbanken
Asset Management

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Weekly bulletin: Investors must adapt to market volatility

Key takeaways

In another choppy week for financial markets, investors attempted to incorporate geopolitical tensions and upcoming interest rate rises into asset prices.

- Decision makers at the US central bank held their policies steady at a key committee meeting last week, but signalled that they would likely begin raising interest rates in March. Meeting minutes pointed to above-trend economic growth, above-target inflation, and good employment data as the triggers for a more rapid pace of change. Markets now anticipate multiple interest rate hikes in the US in 2022.
- Geopolitics have re-entered the financial marketplace, with tensions between the Ukraine and Russia (one of the world's largest energy exporters) pushing the oil price higher. Financial markets always struggle to reflect geopolitical risk in asset prices, and Russia-Ukraine events could also add to the pricing pressures at work in the global economy. This has the potential to lead to further short-term noise in financial markets as investors digest the ongoing situation and its knock-on effects.
- Volatility has been a key feature of financial markets so far in 2022, and last week was no exception. Headline figures for the week in sterling terms were relatively benign, though slightly softer, but these weekly figures masked a bumpy ride, ending with a sharp rally for US share prices on Friday. Bond markets have also been turbulent in January, with prices rising and yields (which move inversely to prices) falling.
- Market unrest like this is not unusual historically, especially at this stage in the economic cycle. We believe we are currently in the 'mid-cycle' phase – an expansionary period when new growth can be harnessed, but volatility typically picks up too. However, the world's leading central banks have suppressed the amount of noise present in markets since the 2008 global financial crisis, through ultra-accommodative policies, so the current return to near-term market noise lies a little outside investor comfort zones.

Weekly market moves

In another softer week for risk assets like shares, global stock markets delivered mixed results. Emerging markets, UK smaller companies, and Japanese shares were the weakest in sterling terms.

The share prices of larger US businesses were up, despite news from the US central bank, thanks to good corporate earnings reports from a few large businesses (most notably technology giant Apple).

In commodity markets, energy prices were strong, while gold weakened (the gold price is now roughly flat for 2022 so far).

What to look out for this week

The spotlight will remain firmly on global central banks as a new month begins, with the European Central Bank and the Bank of England both due to announce their latest policy news on Thursday.

A spate of economic data is due for release throughout the week, including the latest US jobs report, fresh global survey data (the Purchasing Managers' Index) covering both the manufacturing and service sectors, and an early look at European inflation figures for January.

Market moves (as at 28 January 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,121.6	-0.2%	2.0%	2.0%
MSCI United Kingdom Mid Cap	1,351.7	-2.7%	-7.7%	-7.7%
MSCI United Kingdom Small Cap	437.6	-2.6%	-8.5%	-8.5%
MSCI World (GBP)	2,299.5	0.4%	-6.0%	-6.0%
S&P 500 (GBP)	4,431.8	1.8%	-6.0%	-6.0%
MSCI Japan (GBP)	1,157.3	-3.0%	-5.0%	-5.0%
MSCI Europe ex-UK (GBP)	1,642.8	-2.9%	-6.6%	-6.6%
MSCI Pacific ex-Japan (GBP)	1,634.3	-3.8%	-5.0%	-5.0%
MSCI Emerging Markets (GBP)	67,972.0	-3.3%	-2.3%	-2.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,307.9	-0.9%	-3.1%	-3.1%
BoA Merrill Lynch Index-Linked Gilts	647.1	1.6%	-1.1%	-1.1%
BoA Merrill Lynch £ Corporate	455.5	-1.2%	-2.7%	-2.7%
Commodities				
Oil (West Texas Intermediate, GBP)	$86.8	3.0%	16.4%	16.4%
Gold (GBP)	$1788.2	-1.7%	0.0%	0.0%
S&P / GSCI (GBP)	3,080.4	3.0%	12.1%	12.1%

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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