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**Handelsbanken**

Wealth & Asset Management

## WEEKLY BULLETIN

# Warfare and interest rates: investors are watching closely

## Key takeaways

With the eyes of the world fixed on the ongoing horrors unfolding in the Middle East, last week saw nervous investors boosting prices in traditionally safer areas of the market (like government bonds and gold). However, the suggestion that the US central bank could hold interest rates steady for the rest of 2023 provided an additional distraction, pushing share prices higher too.

- Over the past week, Israel has announced a total blockade on food, electricity and fuel going into Gaza, as part of its response to a large-scale terrorist attack by Hamas. Israel has mobilised 360,000 military reservists as it prepares its forces for an attack from land, sea and air, and has warned civilians in Gaza to relocate to the south of the enclave. There have been signs of the conflict broadening too, with exchanges of fire between Israel and Lebanon's Hezbollah and militants in Syria in recent days. Iran has also warned Israel to immediately halt its action against Gaza or it could face a "huge earthquake" of resistance. Meanwhile, President Biden has pledged US support, and is sending munitions, jets and two of the largest US aircraft carriers to the Middle East.
- This is an evolving situation, and it is an understatement to refer to the heightening aggression and loss of civilian life in the Middle East as devastating. Turning uncomfortably, as we must, to the effects on financial markets, it's fair to say that the impact so far has been relatively muted. The prices of traditional 'safe haven' assets like gold and UK government bonds have risen, as has the oil price, although it remains in negative territory for October so far. From here, the impact of the conflict on markets could depend on how severe, widespread, and long-running it turns out to be. Only time will tell.
- In the meantime, stock markets have been buoyed by comments from senior members at the US Federal Reserve Bank (Fed), which implied that we may have seen the last of interest rate hikes from the central bank in 2023. For the financial market mood, the suggestion of a pause in rates appeared to offset news that US inflation (measured by the Consumer Price Index, or CPI) had risen by slightly more than expected in September, to 3.7%. This figure is still significantly above the Fed's ultimate target of 2%, but it is well below recent peaks for inflation.

## Market moves

Fear surrounding international conflict has pushed up the price of typically defensive assets like gold and UK government bonds.

Comments from US central bankers led investors to lower the odds of further interest rate hikes ahead, boosting share prices.

Despite a rally beginning on Friday, the oil price has fallen sharply since the beginning of October, giving back a large portion of its previously very strong 2023 performance.

## What to look out for this week

From an economic standpoint, this week will see updates on US retail sales and unemployment levels, UK inflation and employment figures, and a whole host of data covering the Chinese economy.

The latest corporate earnings season also comes into its stride, with large US-listed businesses releasing their latest earnings news and their outlook for the period ahead. Businesses like Tesla and Netflix are among the key companies due to deliver their updates this week.

## Market performance (as at 13 October 2023)

	Index Levels	Last Week	Month to Date	Year to Date
<b>Equity</b>				
MSCI United Kingdom	2,181.6	1.6%	0.1%	5.4%
MSCI United Kingdom Mid Cap	1,185.3	-0.5%	-2.2%	8.2%
MSCI United Kingdom Small Cap	338.7	-2.0%	-4.9%	-3.6%
MSCI World (GBP)	2,260.0	1.0%	0.9%	10.9%
S&P 500 (GBP)	4,327.8	0.9%	1.5%	13.2%
MSCI Japan (GBP)	1,413.8	2.6%	0.1%	10.0%
MSCI Europe ex-UK (GBP)	1,574.7	1.0%	-0.4%	7.1%
MSCI Pacific ex-Japan (GBP)	1,528.2	0.9%	-0.8%	-6.5%
MSCI Emerging Markets (GBP)	58,578.7	1.9%	0.4%	1.1%
<b>Bonds</b>				
BoA Merrill Lynch Conventional Gilts	968.3	1.8%	0.4%	-4.2%
BoA Merrill Lynch Index-Linked Gilts	393.5	2.9%	-0.2%	-8.2%
BoA Merrill Lynch £ Corporate	381.6	1.3%	0.1%	1.3%
<b>Commodities</b>				
Oil (West Texas Intermediate, GBP)	\$87.7	6.3%	-2.9%	8.4%
Gold (GBP)	\$1909.2	5.4%	2.6%	4.3%
S&P / GSCI (GBP)	3,699.6	4.7%	-0.8%	4.9%

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