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Asset Management

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Weekly bulletin: Poor US growth masks a brighter picture

Key takeaways

The US held centre stage last week, with a wave of economic data as well as earnings updates from major tech firms. Meanwhile, China's zero-tolerance approach to COVID-19 is beginning to take its toll.

- Economic activity in the US unexpectedly contracted in the first quarter of 2022. However, a disappointing headline number masked some brighter spots, such as strong growth in personal consumption and private investment – both important drivers of US growth. Personal consumption figures released at the end of the week were up 1.1% for March, with savings rates falling to a post-pandemic low of 6.2% (the lowest level since 2013), indicating that the US population is currently spending, not saving.

- US inflation figures released last week also suggested that core pricing pressures were lower than expected in March (5.2% versus the same month in 2021), and had dropped versus February. This decline in inflation was measured by personal consumption expenditure (PCE) data, which tracks the change in prices of goods and services purchased by consumers across the US economy. Falls in inflation data should continue over the coming months, as 2021's large initial rises drop out of year-on-year calculations.

- Elsewhere in the world, weak economic survey data (the Purchasing Managers Index) is beginning to show the strain of China's 'zero-COVID' approach. Lockdown restrictions are starting to be eased in Shanghai, but Beijing is now seeing some community transmission of the Omicron variant of COVID-19. Cinemas and gyms have been closed in Beijing, and city-wide PCR tests are required three times each week. Disruptions to China's economic activity can have worldwide consequences. Domestic growth in China has been a key contributor to global growth, and global supply chains are also heavily exposed to the Chinese economy – Shanghai's lockdown caused massive disruption to global shipping networks. The rest of the world will be watching China's next steps very closely.

- Finally, financial markets have been buffeted in recent days by corporate earnings news. Last week, close to 50% of companies in the S&P500 Index (which represents the largest US-listed firms) reported their earnings for the opening months of the year. Almost 75% of companies in the index have now reported their results, with most beating estimated earnings and revenue. However, some companies in the index have a much bigger impact than others, and disappointing earnings from some very large constituents (including tech giants like Google and Amazon) have hurt the index's performance.

Weekly market moves

Stock markets had a poor closing week to a disappointing April. Markets are digesting economic influences such as inflation and growth, as well as attempting to anticipate the next moves from the world's leading central banks.

Bond markets were also weaker, with inflation-linked bonds falling more than most. Gold – a traditional investor safe haven, rose slightly.

The value of sterling fell versus its international peers, though perhaps counterintuitively this typically leads to relatively better returns from overseas assets, as returns are translated from a stronger currency.

What to look out for this week

All eyes will be on the policymaker meeting at the US Federal Reserve Bank on Wednesday. Markets expect a sharp rise in US interest rates, with robust domestic demand, high inflation, and buoyant employment markets forcing the central bank's hand.

The next instalment of unemployment data from Europe and the US is also due for release later this week.

Market moves (as at 29 April 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,167.5	0.5%	1.0%	5.8%
MSCI United Kingdom Mid Cap	1,259.8	-1.2%	-1.8%	-13.2%
MSCI United Kingdom Small Cap	410.2	-1.4%	-1.9%	-13.5%
MSCI World (GBP)	2,178.9	-0.7%	-3.8%	-6.2%
S&P 500 (GBP)	4,155.4	-0.2%	-4.3%	-6.1%
MSCI Japan (GBP)	1,166.6	0.9%	-4.4%	-8.0%
MSCI Europe ex-UK (GBP)	1,535.6	-0.4%	-1.7%	-8.8%
MSCI Pacific ex-Japan (GBP)	1,656.2	0.2%	-1.3%	5.3%
MSCI Emerging Markets (GBP)	63,062.3	2.4%	-1.0%	-5.2%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,211.0	0.1%	-3.0%	-10.3%
BoA Merrill Lynch Index-Linked Gilts	576.4	-2.3%	-6.6%	-11.9%
BoA Merrill Lynch £ Corporate	421.9	-0.5%	-3.2%	-9.9%
Commodities				
Oil (West Texas Intermediate, GBP)	$105.2	4.1%	9.2%	49.9%
Gold (GBP)	$1911.3	0.7%	3.2%	14.2%
S&P / GSCI (GBP)	3,903.1	3.9%	10.2%	51.0%

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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