



## WEEKLY BULLETIN

## Global central banks' interest rate crusade continues

## Key takeaways

Interest rate rises, banking failures, strong employment markets and stubbornly high inflation created an uneasy week for asset prices.

- Central banks in the US, Europe and Australia raised interest rates last week, taking benchmark interest rates in these regions to 5-5.25% (US interest rates are always given in a range), 3.25% and 3.85% respectively. Evidently, the US has taken the lead in 'normalising' its policies, after years of very low interest rates across the developed world. Based on recent messaging from the US Federal Reserve Bank (Fed)'s leading policymakers, we believe that the Fed is now at/close to its peak for interest rates this time around. Nevertheless, with inflation still high, the Fed could hold rates at these higher levels for some time.
- Following the failure of the US First Republic bank last Monday (1 May), financial markets grew more wary of potential weaknesses among regional US banks. This dragged down share prices among banks in general, and in the regional banking sector in particular. It's natural to expect some turbulence as central banks adjust their formerly ultra-accommodative policies (including raising interest rates), and some casualties in the banking sector were unfortunately inevitable. However, we reiterate our expectations that such events are likely to be fairly isolated – affecting a relatively small number of banks – rather than posing a more systemic risk to the banking sector.
- The latest data on US employment markets sent mixed signals last week, but ultimately demonstrated continued strength. Unemployment fell and wage growth increased – unwelcome news for the Fed, which is trying to take some of the heat out of employment markets as part of its efforts to rein in inflation. The number of new job openings fell, which is closer to the Fed's aims, but overall the data supported the idea that the Fed will maintain higher interest rates for the time being.
- Meanwhile, an update on European inflation showed that pricing pressures accelerated in April in the single currency region. Headline inflation (which includes items with more volatile prices) was driven higher by the price of food. Core inflation (which excludes these volatile components) moved slightly lower, but remains elevated. We believe that consumers may be forced to adapt to a new environment, where inflation is higher than the benign levels to which we've grown accustomed in recent years.

## Market moves

In another relatively soft week for share prices, investor confidence was hurt by instability in the US banking sector.

Higher interest rates (and the prospect of further rate rises) weighed on bond markets, as did rather strong US employment market data.

The gold price made small gains, and is now approaching an all-time high.

## What to look out for this week

The Bank of England is expected to hike interest rates this week, moving from 4.25% to 4.5%. Financial markets will be closely studying the accompanying forward-looking guidance from the Bank's policymaker committee.

In the US, President Biden will meet with congressional leaders regarding the US debt ceiling (the limit on the amount of money the government can borrow to pay its bills). On the present trajectory, the US will run out of cash around 1 June. Normally, debt ceiling discussions go down to the wire, so this may be a theme throughout May.

## Market performance (as at 5 May 2023)

	Index Levels	Last Week	Month to Date	Year to Date
<b>Equity</b>				
MSCI United Kingdom	2,233.8	-1.1%	-1.1%	5.8%
MSCI United Kingdom Mid Cap	1,279.4	-0.4%	-0.4%	14.8%
MSCI United Kingdom Small Cap	376.0	-0.2%	-0.2%	5.3%
MSCI World (GBP)	2,195.2	-0.8%	-0.8%	4.3%
S&P 500 (GBP)	4,138.1	-1.2%	-1.2%	3.3%
MSCI Japan (GBP)	1,257.9	1.5%	1.5%	3.8%
MSCI Europe ex-UK (GBP)	1,651.7	-0.6%	-0.6%	11.0%
MSCI Pacific ex-Japan (GBP)	1,632.8	-0.2%	-0.2%	-2.3%
MSCI Emerging Markets (GBP)	59,435.9	0.1%	0.1%	-1.4%
<b>Bonds</b>				
BoA Merrill Lynch Conventional Gilts	1,009.8	-0.6%	-0.6%	-0.1%
BoA Merrill Lynch Index-Linked Gilts	420.9	-2.0%	-1.9%	-1.9%
BoA Merrill Lynch £ Corporate	385.8	-0.3%	-0.3%	2.4%
<b>Commodities</b>				
Oil (West Texas Intermediate, GBP)	\$73.2	-6.4%	-7.4%	-15.1%
Gold (GBP)	\$2001.0	0.2%	0.5%	5.2%
S&P / GSCI (GBP)	3,234.8	-3.3%	-3.7%	-13.1%

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