



WEEKLY BULLETIN

A 'steady as she goes' approach from the US Federal Reserve (Fed)

Key takeaways

Markets breathe a sigh of relief after a 'balanced' speech by Fed Chair Powell at the annual Jackson Hole symposium. Elsewhere, concerns mount over deteriorating growth in China.

- The Fed's annual Jackson Hole symposium, which provides policymakers with an opportunity to outline any broad policy changes, set a different tone to last year when hopes were dashed for a swift end to the Fed's rate hikes. This time, Chair Powell's speech held few surprises and was more balanced, highlighting that policy would be dependent on economic data with all options kept open. It was broadly the same message that he has given for some months now, namely that the Fed is committed to maintaining a tight rein on policy until inflation is brought down to its long-term target of 2%. Powell acknowledged that inflation had moved lower and also that there is uncertainty about the timing of when the effects of previous interest rate increases would be evidenced in the economy. Nonetheless, he said the Fed would be keeping policy "at a restrictive level until we are confident that inflation is moving sustainably down toward our objective". Markets interpreted the speech as an indication that a further rate rise this year could still be on the cards.
- Over in Europe, the August purchasing managers' indices, which provide an indication of the direction of economic trends in the manufacturing and service sectors, suggested that economic activity is contracting in the region. The worse-than-expected drop follows the contraction of private-sector activity, persistent underlying price pressures and slowing growth demand (particularly in the UK). As a result, there is a growing opinion that the European Central Bank will pause interest rate hikes next month.
- Meanwhile, China's economy continued to give cause for concern. China's economy is slowing, not helped by a weakening property sector and longer-term structural constraints around poor demographics and threats to productivity growth. After China's pandemic restrictions were finally eased late last year there was hope its economy would rebound, which it did in the first quarter of this year, but has disappointed since with a slowdown in growth in industrial production, retail sales and investment. Officials in China have pledged to strengthen policy support and speed up government spending, however, only minor policy changes have been implemented so far.

Market moves

Positive market returns across assets for the week as investors reacted to various signals on the economy and the course of monetary policy. UK bonds especially enjoyed a strong rally.

What to look out for this week

In the US, the jobs report for August and July's Personal Consumption Expenditures price index figures are the key releases, while in Europe, all eyes will be on the initial data readings for consumer prices for August, labour market data, and the European Central Bank's account of the July meeting.

The focus in China will be on the latest purchasing managers' indices, to provide an indication of trends in the manufacturing and service sectors.

Market performance (as at 25 August 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,093.4	1.0%	-3.9%	0.8%
MSCI United Kingdom Mid Cap	1,202.8	0.4%	-6.1%	9.2%
MSCI United Kingdom Small Cap	352.7	0.2%	-5.1%	-0.2%
MSCI World (GBP)	2,302.4	1.9%	-2.4%	8.9%
S&P 500 (GBP)	4,433.3	2.3%	-1.4%	11.2%
MSCI Japan (GBP)	1,402.9	1.6%	-3.5%	5.2%
MSCI Europe ex-UK (GBP)	1,620.0	1.3%	-3.7%	7.6%
MSCI Pacific ex-Japan (GBP)	1,544.9	0.5%	-7.3%	-9.2%
MSCI Emerging Markets (GBP)	59,517.0	2.2%	-4.7%	-0.5%
Bonds				
BoA Merrill Lynch Conventional Gilts	967.8	2.1%	-1.3%	-4.3%
BoA Merrill Lynch Index-Linked Gilts	404.5	3.5%	-2.4%	-5.6%
BoA Merrill Lynch £ Corporate	378.5	1.3%	-0.9%	0.5%
Commodities				
Oil (West Texas Intermediate, GBP)	\$80.1	-0.4%	0.0%	-4.6%
Gold (GBP)	\$1915.5	2.6%	-0.4%	1.2%
S&P / GSCI (GBP)	3,560.8	2.0%	1.9%	-2.4%

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