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WEEKLY BULLETIN

Geopolitics and inflation battle for the limelight

Key takeaways

From surprising inflation data in the UK to a change in the Black Sea rules of engagement, financial markets had lots to digest last week.

- Headline UK inflation – the rate at which overall prices are rising – dropped to 7.9% in June, down from 8.7% in May. Whilst this still means that prices are rising, the pace of these price increases has slowed, and by more than analysts had predicted. Core UK inflation (a measure which strips out items with more volatile pricing, like food and fuel) also fell back slightly from May's 31-year high – inching down from 7.1% in May to 6.9% in June.
- Across the Atlantic Ocean, a range of US economic data showed signs of weakening. Industrial production contracted by 0.5% in June, while retail sales rose by just 0.2% (versus predictions of 0.5%). New residential construction work figures also came in below expectations over the 12 months to June, and building permits were lower than expected too. The US employment picture remained strong, though, with new jobless claims not as low as most analysts had predicted.
- Turning to geopolitics, Russia has pulled out of a deal which guaranteed safe passage for grain exports across the Black Sea. Within hours of Russia's withdrawal from the agreement, Russian missiles began to target Ukrainian ports on the Black Sea. Ports on the River Danube – an alternative export route for Ukrainian goods – have also been targeted. Ukrainian officials have reported that 60,000 tonnes of grain have been destroyed in recent days, alongside damage to grain storage infrastructure. Ukrainian land is 71% agricultural, and the country is the seventh largest exporter of wheat on the planet. These events increase global food security risks, as well as placing strain on already elevated food prices.
- Meanwhile in China, there were more signs of stumbling economic growth. In the second quarter of the year, the Chinese economy grew by 6.3% (versus the same period in 2022) – this was higher than in the first quarter of 2023, but still much lower than expected. As a huge part of the global economy, the trajectory for Chinese economic growth is certainly one to watch.
- Finally, in financial markets, the corporate earnings season is well underway, with large US businesses reporting on their latest earnings figures and giving their outlooks for the period ahead. Recent updates from Netflix and Tesla caught the market's attention: Netflix missed sales estimates and issued weaker guidance for the coming few months, while Tesla's results showed shrinking profitability. Neither of these updates included any especially disastrous numbers, but both were taken negatively by investors, stressing the very high expectations embedded into share prices for these businesses.

Market moves

Both stock and bond markets in the UK performed well following the latest news on inflation. The share prices of smaller and mid-sized companies outperformed their larger counterparts.

Weakness in the British currency meant that returns from overseas investments (for UK investors) were boosted, once converted into sterling from stronger currencies.

Asian stock markets were relatively weaker, dragged down by poor performance from Chinese financial assets.

What to look out for this week

The corporate earnings season continues, with updates expected this week from businesses including Microsoft, Alphabet (Google's holding company) and Visa.

Interest rate hikes are expected following central bank meetings in the US (Wednesday) and Europe (Thursday).

Market performance (as at 21 July 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,188.6	3.2%	1.8%	4.4%
MSCI United Kingdom Mid Cap	1,267.2	3.9%	4.1%	14.7%
MSCI United Kingdom Small Cap	372.9	3.6%	4.9%	5.2%
MSCI World (GBP)	2,354.2	2.5%	1.1%	10.4%
S&P 500 (GBP)	4,536.3	2.8%	1.0%	11.7%
MSCI Japan (GBP)	1,386.3	0.7%	-0.4%	6.7%
MSCI Europe ex-UK (GBP)	1,644.9	1.6%	1.5%	11.4%
MSCI Pacific ex-Japan (GBP)	1,609.9	0.8%	1.2%	-3.9%
MSCI Emerging Markets (GBP)	60,911.4	0.8%	1.9%	1.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	982.3	1.5%	1.0%	-2.8%
BoA Merrill Lynch Index-Linked Gilts	416.7	2.8%	0.1%	-2.8%
BoA Merrill Lynch £ Corporate	380.8	1.4%	2.1%	1.1%
Commodities				
Oil (West Texas Intermediate, GBP)	$77.1	4.3%	8.0%	-10.0%
Gold (GBP)	$1960.6	2.5%	1.5%	1.2%
S&P / GSCI (GBP)	3,461.6	4.4%	6.0%	-7.3%

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