Handelsbanken
Asset Management

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Weekly bulletin: Policymakers must pick their new year's resolutions

Key takeaways

Near-term pricing pressures and the need for ongoing economic recovery continue to compete for policymaker attention.

- Financial markets ended 2021 on a quiet note, having faced unexpectedly high inflation and the ongoing challenges presented by the global COVID-19 pandemic at key points during the year. As we begin 2022, policymakers around the world must grapple with the trade-off between near-term inflation and economic growth.
- For central bankers, this is quite the balancing act. The need for ongoing economic recovery would usually necessitate generous central bank policies, while increased pricing pressures typically lead to the removal of economic stimulus in an attempt to calm inflation. The US Federal Reserve Bank (Fed) had already set off on a path towards removing some of the emergency economic support measures (introduced during the earlier stages of the pandemic) when the Omicron variant reared its head in late 2021, and has so far held its nerve. Financial markets currently predict that Fed policymakers will also raise interest rates once in March, then two more times throughout the rest of 2022. How many further interest rate rises we should expect over the next few years remains a live debate.
- The UK enters 2022 with more than two million live COVID-19 cases. But while the Omicron variant has taken confirmed case levels far beyond the pandemic's previous peaks, related hospitalisations and fatalities have remained relatively low, seemingly decoupled from rapidly rising case numbers. In essence, vaccines appear to be doing their job, and doing it well. Recent data from South Africa – where the Omicron variant was originally reported – supports this theory, with studies showing sharp drops in hospitalisation in case of double vaccination.
- Against this backdrop, financial markets remain relatively unconcerned by the rising virus cases. Policymakers must now consider whether or not they are able to keep COVID-19 death rates low, whilst also avoiding an impact on economic growth and financial markets.

Weekly market moves

Most major stock markets spent the final trading days of 2021 in roughly neutral territory, though Japan (which was among the year's laggards) was negative in sterling terms.

Bond markets ended the year quietly too, though inflation linked government bond prices fell slightly (their yields, which move inversely to prices, rose).

Sterling strengthened a little versus its major international peers in the last few days of the year.

What to look out for this week

December's inflation data for a number of European nations will be released this week, following the high price rises recorded in November.

The latest manufacturing and service sector survey data (Purchasing Managers Index) will be made available for a range of countries, including the UK and US.

Market moves (as at 31 December 2021)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,080.9	0.1%	4.8%	19.6%
MSCI United Kingdom Mid Cap	1,466.1	0.8%	4.8%	20.3%
MSCI United Kingdom Small Cap	478.6	1.1%	4.4%	14.7%
MSCI World (GBP)	2,473.5	0.8%	1.9%	23.5%
S&P 500 (GBP)	4,796.6	1.2%	2.1%	29.9%
MSCI Japan (GBP)	1,230.0	-0.8%	-0.5%	3.0%
MSCI Europe ex-UK (GBP)	1,751.5	1.1%	3.9%	17.6%
MSCI Pacific ex-Japan (GBP)	1,696.9	-0.2%	0.9%	5.8%
MSCI Emerging Markets (GBP)	70,191.1	0.9%	-0.4%	-1.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,349.5	-0.2%	-2.8%	-5.3%
BoA Merrill Lynch Index-Linked Gilts	654.5	-0.7%	-5.8%	3.9%
BoA Merrill Lynch £ Corporate	468.2	-0.1%	-1.3%	-3.0%
Commodities				
Oil (West Texas Intermediate, GBP)	$76.1	2.7%	11.1%	57.0%
Gold (GBP)	$1805.9	-0.2%	-2.2%	-3.4%
S&P / GSCI (GBP)	2,791.1	0.8%	5.1%	41.6%

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

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