Handelsbanken
Asset Management

9 May 2022

Weekly bulletin: Central banks in the spotlight once more

Key takeaways

A big week for central bank policy as interest rates are increased in the US and UK.

- The US Federal Reserve (Fed) increased its benchmark interest rate by half a percentage point (50 basis points), in line with market expectations. The Fed also outlined a programme in which it will eventually reduce its bond holdings by $95 billion a month. The rate move is the largest since 2000 and is in response to burgeoning inflation pressures. However, the rate rise was accompanied by a comment from Fed chair Powell that appeared to rule out hikes of a larger magnitude in the near term. Markets initially reacted positively, but were spooked later in the week as various economic data releases reinforced ongoing inflation concerns.
- The Bank of England increased rates by a quarter of a percentage point (25 basis points) to 1.0%, a move that was accompanied by very downbeat commentary around the outlook for UK growth and the prospect of a recession in 2023. Three out of the nine members on the Bank's Monetary Policy Committee were in favour of a larger 50 basis points move. The Bank upgraded its inflation forecasts, with the expectation that the Consumer Price Index will rise further over the rest of 2022, averaging "slightly over 10% at its peak" in the fourth quarter.
- Economic data releases showed that inflation is now rising across the globe and is starting to impact activity in Europe, with manufacturing and industrial production softening while prices skyrocket. The labour market in Europe though, is remaining resilient for now. In the US, there was further evidence of tightening in the labour market; April non-farm payrolls logged 428,000, ahead of consensus, but wage growth missed estimates which could be seen to be supportive of the view that 'peak inflation' may have passed. The unemployment rate remained stable at +3.6%.
- Finally, the first quarter earnings season is drawing to a close with around 90% of companies in the US and 75% in Europe having reported. Company margins have been pretty strong suggesting that firms are still able to pass on inflationary pressures, at least for now. Eventually though, excess savings and liquidity will be run down.

Weekly market moves

It was a negative week for most stock markets, despite returns being flattered by a fall in sterling. Although the falls were small over the week, this masked significant price fluctuations on a daily basis.

Bonds were very weak across the board, as yields climbed higher (yields and prices move inversely to each other), with investors appearing to take the view that the US Fed will tighten policy further. The 10-year US Treasury yield breached 3.00% for the first time since late 2018.

In commodities, oil climbed back over $110 per barrel following EU President Von der Leyen's proposed gradual ban of Russian oil imports, while gold was broadly flat over the week.

What to look out for this week

All eyes will be on the US Consumers Price Index release for April on Wednesday, especially given the talk (and hope) surrounding peak inflation. The economic sentiment survey (the ZEW) for the Eurozone and Germany is published tomorrow, and the consumer sentiment survey from the University of Michigan for the US, on Friday. In the UK, gross domestic product and other main economic indicators are released on Thursday.

Market moves (as at 6 May 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,125.9	-1.9%	-1.9%	3.8%
MSCI United Kingdom Mid Cap	1,196.9	-4.9%	-4.9%	-17.4%
MSCI United Kingdom Small Cap	390.0	-4.9%	-4.9%	-17.8%
MSCI World (GBP)	2,152.7	0.5%	0.5%	-5.6%
S&P 500 (GBP)	4,123.3	1.5%	1.5%	-4.7%
MSCI Japan (GBP)	1,177.8	1.9%	1.9%	-6.2%
MSCI Europe ex-UK (GBP)	1,497.6	-2.3%	-2.3%	-10.8%
MSCI Pacific ex-Japan (GBP)	1,620.3	-1.1%	-1.1%	4.2%
MSCI Emerging Markets (GBP)	60,810.3	-2.5%	-2.5%	-7.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,195.0	-1.3%	-1.3%	-11.4%
BoA Merrill Lynch Index-Linked Gilts	548.8	-4.7%	-4.7%	-16.1%
BoA Merrill Lynch £ Corporate	417.2	-1.1%	-1.1%	-10.9%
Commodities				
Oil (West Texas Intermediate, GBP)	$109.8	6.7%	6.7%	59.8%
Gold (GBP)	$1882.4	0.1%	0.1%	14.3%
S&P / GSCI (GBP)	3,955.3	3.5%	3.5%	56.3%

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

Handelsbanken Asset Management is a trading name of Handelsbanken Wealth & Asset Management Limited which is authorised and regulated by the Financial Conduct Authority (FCA) in the conduct of investment business and is a wholly-owned subsidiary of Handelsbanken plc.

This document has been prepared by Handelsbanken Asset Management for clients and/or potential clients who may have an interest in its services. Nothing in this communication constitutes advice to undertake a transaction and professional advice should be taken before investing. Any observations are Handelsbanken Asset Management's commentary on markets and its own investment strategy. This material is not investment research and the content should not be treated as an offer or invitation to buy or sell securities or otherwise trade in any of the investments mentioned.

Registered Head Office: No.1 Kingsway, London, WC2B 6AN. Registered in England No: 4132340. www.wealthandasset.handelsbanken.co.uk
Telephone: 020 7045 2600