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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Upbeat US data leaves nowhere for rates to go, but up

Key takeaways

With US consumer confidence and employment markets still strong, central banks have limited near-term options for interest rates.

- US consumer confidence (measured by the Conference Board's consumer confidence indicator) hit a 17-month high in June, coming in significantly above expectations. Consumer spending accounts for around two thirds of US economic activity, and consumers appear to be feeling increasingly good about the current environment. The latest new US home sales data was also upbeat, rebounding to its highest level in 15 months.
- There was optimism in the US manufacturing sector too. Having been expected to decline, preliminary durable goods orders for May actually rose by 1.7%. Meanwhile, the Richmond Manufacturing Index – which charts the relative level of business conditions among manufacturers in a key region of the US, including shipments and new orders – also came in above expectations.
- Sticking with the US, initial jobless claims (the number of people filing for unemployment benefits for the first time) was also lower than anticipated. This indicates an ongoing tight labour market in the US – job openings are plentiful, but available workers are scarce. We know that the US Federal Reserve Bank (Fed) watches employment markets closely, and cannot step back from its higher interest rate regime until this strong employment picture begins to ease off.
- Given this strong economic backdrop, investors have grown increasingly confident that central banks are likely to continue hiking interest rates over the months ahead. Signals from financial markets point to another July hike from the Fed, and elevated interest rates through to the end of this year.
- Similar market predictions are in place on this side of the Atlantic too. Investors now expect two further rate hikes from the European Central Bank in 2023, which would take their benchmark interest rate up to 4%. For the Bank of England, financial markets are signalling expectations that interest rates will peak at 6%, with no rate cuts imminent thereafter. As a reminder, the recent spate of interest rate hikes are part of an effort to quell high inflation in the economy, and central bankers very much respond to the latest data when they make their decisions. If you have questions or concerns about interest rate increases, or inflation, please do get in touch.

Market moves

Stock markets enjoyed a fairly strong week, with share prices in the US and Europe outperforming, although share prices in developing economies lagged behind.

Bond markets were more mixed: UK inflation-linked bonds were stronger, and higher yielding corporate bonds performed well.

In commodity markets, the oil price was stronger, while the gold price weakened.

What to look out for this week

All eyes will be on the next round of US employment market data on Friday, for clues about what the US central bank could do next.

Market performance (as at 30 June 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,152.0	0.9%	1.2%	2.6%
MSCI United Kingdom Mid Cap	1,218.0	1.9%	-0.3%	10.2%
MSCI United Kingdom Small Cap	356.1	1.6%	-1.2%	0.3%
MSCI World (GBP)	2,317.9	2.2%	3.4%	9.2%
S&P 500 (GBP)	4,450.4	2.3%	3.9%	10.6%
MSCI Japan (GBP)	1,405.3	0.7%	1.5%	7.1%
MSCI Europe ex-UK (GBP)	1,642.4	2.5%	2.5%	9.7%
MSCI Pacific ex-Japan (GBP)	1,589.0	0.9%	1.6%	-5.0%
MSCI Emerging Markets (GBP)	59,844.1	0.0%	1.3%	-0.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	972.2	-0.1%	-0.5%	-3.8%
BoA Merrill Lynch Index-Linked Gilts	416.3	0.6%	3.2%	-2.9%
BoA Merrill Lynch £ Corporate	373.1	-0.5%	-1.2%	-1.0%
Commodities				
Oil (West Texas Intermediate, GBP)	$70.6	2.5%	1.1%	-16.6%
Gold (GBP)	$1912.3	-1.0%	-5.1%	-0.2%
S&P / GSCI (GBP)	3,232.3	-0.1%	1.8%	-12.5%

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