Handelsbanken
Asset Management

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Weekly bulletin: No sign of St Valentine in financial markets

Key takeaways

Financial markets had lots to navigate this week, with higher-than-expected US inflation data, and growing geopolitical tensions rearing their ugly head in Russia and Ukraine.

- Last week, US inflation figures took markets by surprise, coming in at a 40-year high. The Consumer Price Index (or CPI) is created by assessing price changes across a basket of different consumer goods, and the majority of surprising news was concentrated in relatively persistent categories like rental prices and the costs of medical care. Growth in wages is also starting to show up in US employment markets. We continue to believe that inflation should peak in the coming months, but is likely to settle at a higher level than we have grown used to in recent years.

- Financial markets are increasingly turning their focus away from COVID-19-related data. The spread of the Omicron variant of the virus no longer appears to result in extreme stresses to health systems, and a number of countries have begun removing population restrictions in earnest. In the UK, Prime Minister Johnson has announced that all remaining restrictions in England could end this month, and that a plan to live with COVID-19 will be unveiled on 21 February. In the US, key speakers such as Dr Fauci (Chief Medical Advisor to the President) have expressed hope that US restrictions could similarly end in the coming months.

- Against this backdrop, financial markets are expecting central banks to begin/continue to pull back from the emergency policy measures enacted during the darkest economic points of the global pandemic. Despite already expecting this outcome, markets are likely to be sensitive to changes as they occur over the near term, and investors should probably prepare for some ongoing volatility as markets adjust. The Bank of England has already begun to raise interest rates, and all eyes will now be on economic data in the US and Europe ahead of their next respective central bank meetings in a few weeks' time.

- Meanwhile, the latest US corporate earnings season is in its closing phases: over 70% of the world's largest companies have already reported their results for the fourth quarter of 2021, and delivered their outlooks for the future. Most reports have demonstrated higher-than-expected company earnings, with strong results from Amazon providing a further boost late last week. Overall, the picture is one of ongoing growth, albeit at a slower pace than in the earlier stages of the economic recovery. Happily, supply chain pressures, which may have squeezed company profit margins, appear to be receding.

Weekly market moves

Issues around inflation and the future path for US interest rates created a nervous week for bond investors, with bond market indices falling, adding to year-to-date losses.

Meanwhile, US markets fell as the week drew to a close, with geopolitical concerns surrounding Russia and Ukraine creating additional unease. Markets further east (in Europe and Asia) had already closed for the week when US share prices showed signs of strain, and have opened to weakness this morning – playing 'catch down', rather than 'catch up', with their US counterparts.

What to look out for this week

The latest UK inflation data will be released on Wednesday.

Central bank leaders and finance ministers from G20 nations will meet on Thursday and Friday. Russia-Ukraine tensions and looming US interest rate rises are likely to be among the main topics up for discussion.

Market moves (as at 11 February 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,175.2	1.9%	2.7%	4.6%
MSCI United Kingdom Mid Cap	1,355.1	0.8%	-0.8%	-7.5%
MSCI United Kingdom Small Cap	442.8	1.2%	0.2%	-7.4%
MSCI World (GBP)	2,317.2	-1.2%	-2.0%	-6.2%
S&P 500 (GBP)	4,418.6	-2.3%	-3.4%	-7.6%
MSCI Japan (GBP)	1,206.3	0.5%	1.3%	-2.9%
MSCI Europe ex-UK (GBP)	1,658.9	0.4%	0.0%	-5.3%
MSCI Pacific ex-Japan (GBP)	1,703.8	2.4%	4.3%	-0.6%
MSCI Emerging Markets (GBP)	70,424.7	1.1%	1.3%	0.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,265.8	-1.6%	-2.2%	-6.2%
BoA Merrill Lynch Index-Linked Gilts	620.3	-0.8%	-2.5%	-5.2%
BoA Merrill Lynch £ Corporate	441.7	-0.7%	-2.5%	-5.6%
Commodities				
Oil (West Texas Intermediate, GBP)	$93.1	0.4%	3.0%	23.1%
Gold (GBP)	$1831.2	0.9%	0.6%	1.0%
S&P / GSCI (GBP)	3,218.7	0.3%	2.5%	15.5%

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.

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