


WEEKLY BULLETIN

Back to the '80s for the UK's cost of living crisis

Key takeaways

[Inflation continues to dominate the headlines. Pricing pressures reached their highest level since the 1980s in the UK, and triggered interest rate rises in Europe.](#)

- It will come as little surprise to UK residents to hear that UK inflation hit a new 40-year high in June. Consumer prices (measured by the Consumer Price Index, or CPI) rose 9.4% versus the same period in 2021 – the biggest increase since February 1982. This also marked an acceleration versus May, driven by a surge in petrol prices. This latest data points to an intensified cost of living crisis, and heaps further pressure on the Bank of England to deliver an aggressive interest rate increase next month. Inflation is currently expected to rise higher still in October, when another energy price hike kicks in.
- The European Central Bank (ECB) increased interest rates for the first time in 11 years, lifting its benchmark interest rate out of negative territory in the process – moving from -0.5% to 0.0%. It seems that the ECB's fears of persistent inflation and rising inflation expectations have trumped worries of recession. Expectations are for a rate hike of the same magnitude in September, provided government bond markets in the region hold relatively steady. In keeping with this, the ECB also announced a range of new (and reintroduced) tools aimed at managing debt markets in Europe.
- Financial markets responded with relief to news that Russia had resumed its Nord Stream gas flows, following a planned period of offline maintenance. Natural gas prices fell by as much as 6.5% in Europe by way of response. The pipeline accounts for more than a third of Russian gas exports to Europe, and shipments have now reportedly returned to the levels seen prior to this maintenance shutdown (around 30-40% of full capacity). On Wednesday, the EU announced plans for member states to cut demand by 15%, and called on countries to support members who are more exposed to Russian gas. However, it's clear that gas supplies to Europe have now been weaponised, and the fear remains that Russia could cut off supplies completely and abruptly.
- Meanwhile in the US, 'earnings season' continues apace, with the largest US-listed businesses reporting on their recent earnings and outlooks for the future. So far, around a fifth of major US businesses have reported, and earnings reports appear better than many had feared. While some businesses have disappointed (e.g. Twitter and American Airlines), others (e.g. Netflix and Tesla) have reported strong results versus quite low expectations, and have been rewarded by the market with higher share prices.

Market moves

In a strong week for riskier asset types like shares, stock markets delivered upbeat performance. Europe and Japan led the way in sterling terms, and the share prices of growth-focused businesses enjoyed some good performance.

Bond markets also experienced a strong rebound. Investors were responding to weak private sector survey data (Purchasing Managers' Index, or PMI) which suggested that central bank action is taking effect.

Commodities were relatively subdued, with oil and even European gas prices moving lower. If this continues, it will provide welcome news for the inflation outlook.

What to look out for this week

The US Federal Reserve Bank meets on Wednesday, and is expected to enact another meaty interest rate hike.

In the UK, two candidates remain in the race to become the next leader of the Conservative Party, and by extension the next UK prime minister. Rishi Sunak and Liz Truss are quite contrasting in their policies, and we can expect extensive media coverage of the race in the coming weeks.

Market performance (as at 22 July 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,099.6	1.6%	1.5%	3.2%
MSCI United Kingdom Mid Cap	1,188.0	4.6%	7.4%	-17.3%
MSCI United Kingdom Small Cap	388.4	5.1%	6.4%	-17.5%
MSCI World (GBP)	2,080.1	1.6%	5.1%	-6.6%
S&P 500 (GBP)	3,961.6	0.9%	5.6%	-5.7%
MSCI Japan (GBP)	1,199.4	3.7%	5.6%	-5.9%
MSCI Europe ex-UK (GBP)	1,464.7	3.0%	3.7%	-11.6%
MSCI Pacific ex-Japan (GBP)	1,560.6	1.9%	2.9%	2.4%
MSCI Emerging Markets (GBP)	59,544.9	1.4%	0.3%	-7.7%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,172.7	1.7%	1.9%	-13.1%
BoA Merrill Lynch Index-Linked Gilts	505.3	0.9%	0.0%	-22.7%
BoA Merrill Lynch £ Corporate	410.8	1.5%	2.3%	-12.2%
Commodities				
Oil (West Texas Intermediate, GBP)	\$94.7	-6.4%	-11.4%	41.4%
Gold (GBP)	\$1737.0	0.2%	-3.6%	8.2%
S&P / GSCI (GBP)	3,605.9	-0.8%	-3.5%	46.2%

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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