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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

# Deal reached on US debt ceiling as clock ticks down

## Key takeaways

Financial markets start the week on an optimistic note as a deal is reached to suspend the US debt ceiling until after the next election.

- After more political wrangling last week, a deal was reached at the weekend between President Biden's Democratic Party and Republican House Speaker McCarthy to suspend the US debt ceiling until 1 January 2025. The debt ceiling, which is a cap on the amount the government can borrow, was breached in January, since which time the US Treasury has been spending reserves that could run out by 5 June. Congress is expected to vote on the deal on Wednesday and the US Senate later in the week. The Democrats also agreed to cap federal spending for the next two years.

- Elsewhere, recent data releases highlighted that inflation is proving hard to get under control. In the US, the central bank's preferred measure – the Core Personal Consumption Expenditure (PCE) Index was higher than expected in April, while in the UK, both the core measure of inflation (that excludes energy, food, alcohol and tobacco) and food inflation both increased. Food inflation in the UK continues to be a major issue, unlike the US, despite food production costs peaking in the fourth quarter of last year. Brexit and labour shortages have been cited as two possible reasons. With the data evidencing the ongoing battle with inflation, financial markets see a greater probability of an increase in both US and UK interest rates in June. Nonetheless, we believe we are close to the peak of the interest rate hiking cycle in most major economies.

- Looking globally, various economic indicators are suggesting that growth is slowing. While business conditions indicators (known as PMIs) were solid across the US, Europe, and Japan in May, they were driven by the services sector rather than by manufacturing, and a weaker manufacturing sector usually indicates slower global growth ahead. Moreover, China's recovery is looking less robust than expected since the economy re-opened after the zero-COVID restrictions were lifted. The initial momentum came from domestic consumer spending, not from the traditional manufacturing side of the economy, as is evidenced by weaker demand and lower prices in copper, oil and other industrial commodities.

## Market moves

The global stock market just held its head above water last week as uncertainty about the US debt ceiling and interest rates weighed along with worries about global growth. The US was the strongest market, boosted by technology company shares, after a strong week for corporate earnings in the sector. However, it was another tough week for bonds, as inflation continues to prove a difficult adversary.

## What to look out for this week

The US debt ceiling negotiations and the May jobs report will be the main themes this week. The US jobs report is the last one before the central bank, the Federal Reserve, meets to decide on the next move for interest rates. In Europe, all eyes will be on inflation and labour market data for the key economies, with consumer price indices readings for Germany, France, Italy and the Eurozone.

## Market performance (as at 26 May 2023)

| | Index Levels | Last Week | Month to Date | Year to Date |
|---|---|---|---|---|
| **Equity** | | | | |
| MSCI United Kingdom | 2,185.0 | -1.6% | -2.8% | 3.9% |
| MSCI United Kingdom Mid Cap | 1,242.1 | -2.2% | -3.1% | 11.7% |
| MSCI United Kingdom Small Cap | 362.7 | -2.9% | -3.6% | 1.8% |
| MSCI World (GBP) | 2,217.6 | 0.4% | 1.9% | 7.1% |
| S&P 500 (GBP) | 4,205.5 | 1.2% | 3.0% | 7.6% |
| MSCI Japan (GBP) | 1,323.5 | -1.1% | 3.8% | 6.0% |
| MSCI Europe ex-UK (GBP) | 1,632.5 | -1.3% | -1.0% | 10.5% |
| MSCI Pacific ex-Japan (GBP) | 1,584.1 | -2.5% | -2.5% | -4.5% |
| MSCI Emerging Markets (GBP) | 58,765.2 | 0.4% | 1.7% | 0.1% |
| **Bonds** | | | | |
| BoA Merrill Lynch Conventional Gilts | 961.7 | -2.4% | -5.3% | -4.9% |
| BoA Merrill Lynch Index-Linked Gilts | 394.6 | -2.4% | -8.0% | -8.0% |
| BoA Merrill Lynch £ Corporate | 373.7 | -1.9% | -3.4% | -0.8% |
| **Commodities** | | | | |
| Oil (West Texas Intermediate, GBP) | $72.7 | 1.9% | -3.5% | -11.6% |
| Gold (GBP) | $1947.9 | -0.4% | 0.1% | 4.8% |
| S&P / GSCI (GBP) | 3,203.3 | 1.2% | -1.0% | -10.6% |

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.