

## Weekly bulletin: Global stock markets begin 2022 on the back foot

### Key takeaways

A wary tone enveloped financial markets last week, as the US central bank hinted at interest rate rises sooner than expected.

- Last week saw the release of December's meeting minutes for the main committee at the US Federal Reserve Bank (Fed). The minutes noted that the economic outlook "could warrant a potentially faster pace of policy rate normalisation". This led financial markets to anticipate an interest rate rise as early as March, in just a few weeks' time. Officials also raised the prospect of a reduction in the Fed's balance sheet – which has more than doubled since the start of the pandemic – possibly beginning a few months after the first rate hike. A step back from emergency central bank support measures could cause some volatility as financial markets adjust, but it is important to remember that this does not necessarily mean negative asset returns over the longer run.
- The headline US employment figure (non-farm payrolls) missed expectations this week with fewer new jobs added to the market than had been expected. However, wage growth continued to rise, and the unemployment rate fell to 3.9% – close to pre-pandemic lows. This further bolsters the case for the Fed's aim of moving away from its current ultra-accommodative policies.
- Sticking with the US, the latest survey data points to slower – but still firmly positive – economic growth. The ISM services index (also known as the Purchasing Managers' Index or PMI) fell by more than expected in December, but remains in expansionary territory, in line with other PMIs from around the world. The recent surge in the Omicron COVID-19 variant is likely partly to blame for the change.
- In Europe, the latest inflation data (measured by the Consumer Price Index) showed that pricing pressures reached record levels in December, driven in part by energy costs. Meanwhile in the UK, figures indicated that house prices rose by 10% in 2021, though rising UK inflation and (relatedly) higher utility bills are expected to cool property prices this year. Encouragingly, we are seeing the first signs that inflation pressures are ebbing away in the US, with survey data showing a sharp decline in some manufacturing costs, though this is not yet occurring across all sectors. Nevertheless, we believe we may now be approaching the peak for US inflation, which would be positive news for wider global markets.

### Weekly market moves

As part of a tough start to the year for global stock markets, the UK proved the only bright spot last week, with most global regions underperforming.

Traditional investor 'safe havens' like gold and government bonds were also weak.

Oil prices continued their strong 2021 run, despite the broadly risk-averse market tone.

### What to look out for this week

A host of economic data is due for release over the course of the week, including US inflation and retail sales, and UK economic growth.

A new 'corporate earnings season' is also due to begin this week, with many of the world's largest companies reporting their results for the last quarter of 2021 and delivering their outlooks for the future. The leading US banks will kick-start proceedings.

## Market moves (as at 7 January 2022)

	Index Levels	Last Week	Month to Date	Year to Date
<b>Equity</b>				
MSCI United Kingdom	2,115.4	1.7%	1.7%	1.7%
MSCI United Kingdom Mid Cap	1,449.0	-1.2%	-1.2%	-1.2%
MSCI United Kingdom Small Cap	473.1	-1.1%	-1.1%	-1.1%
MSCI World (GBP)	2,422.6	-1.9%	-1.9%	-1.9%
S&P 500 (GBP)	4,677.0	-2.0%	-2.0%	-2.0%
MSCI Japan (GBP)	1,233.8	-0.3%	-0.3%	-0.3%
MSCI Europe ex-UK (GBP)	1,730.1	-1.1%	-1.1%	-1.1%
MSCI Pacific ex-Japan (GBP)	1,701.8	-0.8%	-0.8%	-0.8%
MSCI Emerging Markets (GBP)	69,856.8	-0.7%	-0.7%	-0.7%
<b>Bonds</b>				
BoA Merrill Lynch Conventional Gilts	1,319.4	-2.2%	-2.2%	-2.2%
BoA Merrill Lynch Index-Linked Gilts	635.6	-2.8%	-2.8%	-2.8%
BoA Merrill Lynch £ Corporate	462.2	-1.3%	-1.3%	-1.3%
<b>Commodities</b>				
Oil (West Texas Intermediate, GBP)	\$78.9	4.5%	4.5%	4.5%
Gold (GBP)	\$1792.6	-0.9%	-0.9%	-0.9%
S&P / GSCI (GBP)	2,859.9	2.8%	2.8%	2.8%

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