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Wealth & Asset Management

WEEKLY BULLETIN

Pricing pressures continue to mount in the UK

Key takeaways

UK consumers are being squeezed by historically high inflation, while US consumers have likely passed the peak of the pain. Meanwhile in China, the central bank is taking an approach completely at odds with its developed world counterparts.

- Inflation hit a multi-decade high in the UK last week, with the Consumer Price Index (CPI) reaching 9%. The main contributors to this were housing costs and ‘household services’ costs – the price of energy was the main culprit here, with recent commodity price rises (heightened by the effects of the war in Ukraine) taking their toll. Unlike in the US, the peak for UK inflation has not arrived yet. UK consumers have so far done well to cope with this period of intense pricing pressures, but economic growth is likely to continue to slow in the near term.

- Meanwhile, UK employment levels are high, with fewer unemployed people than job vacancies for the first time since records began. Wages are also rising, but not quickly enough to keep pace with inflation, meaning that the real-world value of wages is falling. This is clearly impacting consumer activity, as well as consumer confidence, and will continue to do so over the near term.

- Across the Atlantic, the US is in a better place than its European peers, and the peak for US inflation has likely passed. However, US consumers are not immune to the pain of pricing pressures, and recent data indicates that credit card debt (along with savings) is being used to help weather the storm. Even so, retail stores are feeling the impact of customers tightening their belts. US retail giants Walmart and Target were among those who saw their share prices hit hard last week, following cuts to annual profit forecasts. It would appear that US retailers have now built up too much inventory (stock) relative to customer demand, though this should in turn lessen supply chain pressures and potentially help to further ease US inflation.

- In China, a zero-tolerance approach to the COVID-19 virus means that the central bank has been forced to enact more accommodative policies to stimulate the economy. Faced with a property slump and weak consumer demand, the People’s Bank of China cut a key interest rate (on 5-year prime loans) by a record amount last week. This stands in stark contrast to leading developed world central banks, which are stepping back from their former ultra-supportive policies, cutting interest rates and reducing spending as they try to rein in inflation.

Market moves

In another difficult week for financial markets, concerns around inflation, slowing economic growth, and poor business earnings weighed on investor confidence.

There were few places to hide as both riskier asset types and traditional ‘safe havens’ lost money. The US stock market was the major underperformer in share price terms, while in bond markets inflation-linked UK government bonds were markedly weak.

What to look out for this week

A range of economic data is due for release throughout the week. This includes an early look at survey data covering private sector businesses (the Purchasing Managers’ Index), as well as spending and consumption data for the US.

The World Economic Forum’s annual meeting in Davos has already begun – the first face-to-face annual meeting since before the global outbreak of COVID-19. Given the war in Ukraine, geopolitics are likely to take centre stage.

Market performance (as at 20 May 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,129.2	-0.2%	-1.5%	4.2%
MSCI United Kingdom Mid Cap	1,187.3	-1.7%	-5.6%	-18.0%
MSCI United Kingdom Small Cap	390.4	-0.3%	-4.6%	-17.6%
MSCI World (GBP)	2,066.9	-3.6%	-4.1%	-9.9%
S&P 500 (GBP)	3,901.4	-4.9%	-4.8%	-10.6%
MSCI Japan (GBP)	1,152.9	-0.1%	0.7%	-7.3%
MSCI Europe ex-UK (GBP)	1,490.8	-1.1%	-3.2%	-11.7%
MSCI Pacific ex-Japan (GBP)	1,625.8	1.0%	-2.0%	3.3%
MSCI Emerging Markets (GBP)	60,910.6	1.1%	-3.0%	-8.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,207.4	-1.5%	-0.3%	-10.5%
BoA Merrill Lynch Index-Linked Gilts	555.1	-5.7%	-3.6%	-15.1%
BoA Merrill Lynch £ Corporate	418.8	-1.2%	-0.7%	-10.5%
Commodities				
Oil (West Texas Intermediate, GBP)	$113.2	0.4%	9.0%	63.3%
Gold (GBP)	$1834.2	-0.8%	-3.4%	10.3%
S&P / GSCI (GBP)	3,971.2	-1.2%	3.0%	55.5%

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

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