

**WEEKLY BULLETIN****Good news for the economy, bad news for markets?**

Key takeaways

US inflation appears to be headed in the right direction, and economic growth in the UK has been stronger-than-expected. However, investors took this as a sign of higher interest rates to come, and reacted accordingly...

- US inflation (measured by the Consumer Price Index, or CPI) rose slightly in July, though the pace of price increases still appears to be slowing. Inflation increased by 0.2% when compared with June this year, and by 3.2% when compared with July 2022. As a reminder, US inflation reached a peak of 9.1% in June 2022. While this is still some way off the US central bank's target of 2%, inflation does appear to be broadly headed in the right direction, with changes in airline fares, used car prices and rents all helping pricing pressures to ease back.
- Despite this apparently benign news on US inflation, US bond yields rose a little last week, as policymakers at the US central bank implied that there was more work to be done. In practical terms, this suggests further interest rate hikes from the US central bank. Bond yields (which move in the opposite direction to bond prices) are ultimately priced according to the benchmark rates set by central banks, but they also reflect market expectations for future interest rate levels. Bond yields (and therefore bond prices) can move very quickly as a result of changes in investor expectations. This was the case last week, hence the rises in bond yields (and falls in bond prices).
- In the UK, the latest figures showed that the economy grew by 0.2% in the second quarter of the year (April-June). This was partly driven by good consumer activity. In a perverse case of good economic news being received as bad market news, this better-than-expected result led investors to believe that this would give the Bank of England more space to keep hiking rates in order to tackle inflation. As a result, similarly to the US market, UK bond yields rose (and their prices fell).
- Generally, bond prices and share prices are expected to move in opposite directions, especially during periods of macroeconomic uncertainty. Roughly speaking, stock markets typically sell off when investors are worried about the outlook for the economy, leading them to switch to traditionally safer assets like bonds. However, both stock and bond markets performed relatively poorly last week, as the inflation and interest rate concerns which had impacted bond markets also created concerns about the outlook for the economy, and the knock-on effects for company profits. This caused some weakness in share prices too.

Market moves

Both bond and stock markets fell last week, as investors responded to inflation news by expecting even higher interest rates.

The oil price fell slightly, giving back some of the gains it had made in the previous week.

What to look out for this week

Economic data due for release this week includes UK inflation figures and employment market data for July, as well as updates on US retail sales and industrial production.

Market performance (as at 11 August 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,148.6	0.1%	-1.6%	3.2%
MSCI United Kingdom Mid Cap	1,247.0	-1.1%	-2.8%	13.0%
MSCI United Kingdom Small Cap	366.3	-0.6%	-1.5%	3.5%
MSCI World (GBP)	2,322.1	-0.1%	-1.7%	9.6%
S&P 500 (GBP)	4,464.1	0.1%	-1.5%	11.1%
MSCI Japan (GBP)	1,407.4	-0.7%	-1.7%	7.2%
MSCI Europe ex-UK (GBP)	1,625.8	0.0%	-1.7%	9.7%
MSCI Pacific ex-Japan (GBP)	1,601.4	-0.8%	-3.4%	-5.4%
MSCI Emerging Markets (GBP)	60,671.5	-1.6%	-3.4%	0.9%
Bonds				
BoA Merrill Lynch Conventional Gilts	960.1	-1.1%	-2.0%	-5.0%
BoA Merrill Lynch Index-Linked Gilts	400.3	-2.3%	-3.4%	-6.6%
BoA Merrill Lynch £ Corporate	377.7	-0.7%	-1.1%	0.3%
Commodities				
Oil (West Texas Intermediate, GBP)	\$83.2	0.9%	2.9%	-1.8%
Gold (GBP)	\$1915.8	-1.0%	-1.6%	-0.1%
S&P / GSCI (GBP)	3,586.0	0.8%	1.4%	-2.9%

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

Handelsbanken Wealth & Asset Management Limited is authorised and regulated by the Financial Conduct Authority (FCA) in the conduct of investment and protection business, and is a wholly-owned subsidiary of Handelsbanken plc. For further information on our investment services go to wealthandasset.handelsbanken.co.uk/important-information. Tax advice which does not contain any investment element is not regulated by the FCA. Professional advice should be taken before any course of action is pursued.

- Find out more about our services by contacting us on 01892 701803 or visiting our website: wealthandasset.handelsbanken.co.uk
- Read about how our investment services are regulated, and other important information: wealthandasset.handelsbanken.co.uk/important-information
- Learn more about wealth and investment concepts in our Learning Zone: wealthandasset.handelsbanken.co.uk/learning-zone/
- Understand more about the language and terminology used in the financial services industry and our own publications through our Glossary of Terms: wealthandasset.handelsbanken.co.uk/glossary-of-terms/

All commentary and data is valid, to the best of our knowledge, at the time of publication. This document is not intended to be a definitive analysis of financial or other markets and does not constitute any recommendation to buy, sell or otherwise trade in any of the investments mentioned. The value of any investment and income from it is not guaranteed and can fall as well as rise, so your capital is at risk.

We manage our investment strategies in accordance with pre-defined risk and reward targets, which vary from strategy to strategy to suit a range of customer needs. Portfolios may include individual investments in structured products, foreign currencies and funds (including funds not regulated by the FCA) which may individually have a relatively high risk profile. The portfolios may specifically include hedge funds, property funds, private equity funds and other funds which may have limited liquidity. Changes in exchange rates between currencies can cause investments of income to go down or up.

Registered Head Office: No.1 Kingsway, London WC2B 6AN. Registered in England No: 4132340 wealthandasset.handelsbanken.co.uk