



WEEKLY BULLETIN

Inflation falling, but central banks will not back down

Key takeaways

Pricing pressures have fallen in Europe and the US, but investors shouldn't expect central banks to halt their war on inflation just yet.

- Inflation fell on both sides of the Atlantic in February, according to data released last week. In the US, consumer prices (measured by the core personal consumption expenditures index, or PCE) slowed to 0.3% in February, from 0.5% in January. We know that this is the US central bank's preferred measure of inflation, and this latest update marked a greater slowdown than expected, helping the annual rate of core US inflation (which excludes volatile items like food and fuel) to inch down from 4.7% to 4.6%.
- Annual inflation data for Europe also dropped, falling sharply from 8.5% in February to 6.9% in March. This has been attributed to a drop in energy prices, and marks Europe's lowest inflation rate in a year.
- However, the US central bank – the Federal Reserve (Fed) – clearly does not believe that the war on inflation has been won. The Fed's key policymaker committee has signalled that it expects inflation to continue to rise this year, alongside weaker economic growth as the effects of higher interest rates take hold on economic activity. It's worth remembering that central banks have effectively staked their credibility on their ability to bring inflation to heel, and are therefore unlikely to walk away lightly.
- Revised figures showed that, after all, the UK economy did grow very slightly in the final months of 2023. Data previously suggested that the UK economy had delivered a 0% growth rate for the fourth quarter of the year, but the updated figures pointed to a growth rate of 0.1%. The news confirmed that the UK managed to avoid recession – albeit very narrowly – thanks to better-than-expected performance by the telecommunications, construction and manufacturing sectors.
- In international trade news, the UK has signed a trade deal with 11 Asian and Pacific region countries, cutting tariffs on a range of goods, from cars and machinery to chocolate and cheese. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership – or CPTPP – represents a market of around half a billion people, and reduces trade restrictions and tariffs between its members. However, by the UK government's own estimation, the deal is likely to add just 0.08% to the size of the UK economy.

Market moves

Stock markets celebrated news of weaker-than-anticipated US inflation by ending the week strongly. Share prices in the financial sector reflected some recovery from their mid-March troubles, while strong performances in the technology sector also pushed market performance higher over the week.

Amid this more risk-positive market mood, traditionally safer areas of the market (such as government bonds) were weaker.

The oil price rallied strongly over the weekend due to a surprise announcement from OPEC (Organization of the Petroleum Exporting Countries) that production would be cut.

What to look out for this week

After February's unexpectedly strong data, March's monthly US employment market update is due for release on Friday.

The latest private sector survey data for the US manufacturing and service industries is due for release throughout the week, and could provide a good real-time update on economic conditions.

Market performance (as at 31 March 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,187.6	3.0%	-2.7%	3.2%
MSCI United Kingdom Mid Cap	1,239.2	4.6%	-0.6%	10.8%
MSCI United Kingdom Small Cap	365.4	2.9%	-5.2%	1.7%
MSCI World (GBP)	2,174.5	2.6%	1.0%	4.9%
S&P 500 (GBP)	4,109.3	2.4%	1.5%	4.6%
MSCI Japan (GBP)	1,217.7	0.7%	2.0%	3.5%
MSCI Europe ex-UK (GBP)	1,626.7	4.2%	1.3%	9.1%
MSCI Pacific ex-Japan (GBP)	1,625.4	1.9%	-1.5%	-0.6%
MSCI Emerging Markets (GBP)	59,416.2	0.8%	0.9%	1.2%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,033.9	-1.6%	3.0%	2.3%
BoA Merrill Lynch Index-Linked Gilts	447.1	1.1%	6.1%	4.3%
BoA Merrill Lynch £ Corporate	386.2	-1.0%	1.0%	2.5%
Commodities				
Oil (West Texas Intermediate, GBP)	\$75.7	8.1%	-3.6%	-8.2%
Gold (GBP)	\$1979.7	-1.8%	6.2%	6.2%
S&P / GSCI (GBP)	3,323.0	3.4%	-3.1%	-7.5%

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