

**WEEKLY BULLETIN****Are UK interest rates finally approaching their peak?****Key takeaways**

The UK held the spotlight last week, as the Bank of England responded to stubbornly resistant inflation with another sharp interest rate hike.

- Despite hopes that UK inflation would fall in May, figures released on Wednesday last week showed that price increases for goods and services remained steadily high, at 8.7%. Up until this point, UK inflation had appeared to be on a downward trend, falling from a peak of 11.1% in 2022. Food and energy costs have shown signs of stepping back, but 'core' inflation (which strips out food and energy costs) is at its highest level since 1992, driven upwards by rising prices in air travel and recreational goods and services.
- Continuing its efforts to quell these pricing pressures, the Bank of England announced a further interest rate hike on Thursday. While a rate hike was expected, its magnitude surprised many investors – the benchmark UK interest rate rose from 4.5% to 5% (its highest level since 2008).
- From the outside, the world's leading central banks can appear quite dogged in their quest to bring down inflation. However, in reality they are acutely aware that the higher interest rates climb, the greater the chance of a substantial upset to economic growth. So, although the pace and magnitude of recent interest rate rises in developed economies has been quite unprecedented, we believe we are now much closer to the end than the beginning of these hikes. Indeed, cuts are increasingly likely within the next 12-18 months as central banks attempt to avoid causing too much damage to economic growth.
- Nevertheless, economic growth will be impacted. This is a necessary part of the process in slowing down economic activity in order to take the heat out of pricing pressures. It's important to remember that this is an inexact science, and the impact to growth from interest rate hikes typically occurs with a lag. It usually takes around 18 months for interest rate hikes to fully impact the real economy, meaning that the effects of late 2021/early 2022 interest rate rises are likely to hit home shortly. While we expect economic growth to decelerate from here, we don't anticipate an extreme downturn akin to the global financial crisis in 2008-9, or the sharp pain of the COVID-19 crisis in 2020.

Market moves

Global stock markets struggled last week, as central bank action around the world took its toll on share prices. Signals from 'leading indicators' such as consumer expectations, worsening lending conditions, and manufacturing orders also made investors uneasy.

UK government bonds delivered mixed performance, with shorter-dated bonds falling and longer-dated bonds rallying.

What to look out for this week

Uncertainty around Russian politics has re-entered the geopolitical fray, following the threat of a coup against President Putin's regime last week. The eyes of the world will be watching for further developments.

Inflation data is due for release in the US and mainland Europe.

At a European Central Bank forum in Sintra, Portugal, leading central bankers from around the world will meet to opine on policymaker issues.

Market performance (as at 23 June 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,133.5	-2.3%	0.4%	1.7%
MSCI United Kingdom Mid Cap	1,196.2	-3.6%	-2.2%	8.2%
MSCI United Kingdom Small Cap	350.8	-4.9%	-2.8%	-1.3%
MSCI World (GBP)	2,267.2	-1.2%	1.2%	6.8%
S&P 500 (GBP)	4,348.3	-0.6%	1.6%	8.1%
MSCI Japan (GBP)	1,389.6	-2.6%	0.8%	6.4%
MSCI Europe ex-UK (GBP)	1,605.5	-2.4%	-0.1%	7.0%
MSCI Pacific ex-Japan (GBP)	1,573.2	-3.6%	0.8%	-5.9%
MSCI Emerging Markets (GBP)	59,773.3	-2.8%	1.3%	-0.5%
Bonds				
BoA Merrill Lynch Conventional Gilts	973.6	0.7%	-0.3%	-3.7%
BoA Merrill Lynch Index-Linked Gilts	413.8	0.7%	2.6%	-3.4%
BoA Merrill Lynch £ Corporate	375.0	0.2%	-0.7%	-0.4%
Commodities				
Oil (West Texas Intermediate, GBP)	\$69.2	-2.9%	-1.0%	-18.3%
Gold (GBP)	\$1930.7	-0.7%	-4.2%	0.7%
S&P / GSCI (GBP)	3,235.7	-1.9%	1.9%	-12.4%

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 wealthandasset.handelsbanken.co.uk