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WEEKLY BULLETIN

Markets unnerved by US inflation figures

Key takeaways

In another difficult week for global stock markets, share prices reflected ongoing fears over central bank activity designed to bring inflation under control. US inflation appears to have peaked, but the latest figure fell by less than markets had expected.

- Inflation data released last week indicated that US pricing pressures have already peaked, and are now heading downwards. April's headline Consumer Price Index (CPI) reading (which measures changes in the cost of a basket of consumer goods and services over time) came in at 8.3%. This was lower than March's reading (8.5%), but still higher than expected. Another form of the CPI reading – the 'core' reading, which strips out more volatile items in the basket, like food and energy – remained elevated, and actually accelerated versus the previous month. This has raised concerns over price rises becoming more entrenched.
- Against this backdrop, the world's leading central banks are shifting away from the very supportive stances held in recent years (including ultra-low interest rates), and into a more neutral stance (involving higher interest rates). In doing so, central banks hope to deliberately slow down economic activity, and thus control inflation. This has made financial markets uneasy, as engineering a 'soft landing' for an economy is a notoriously tricky task. With this in mind, speakers from the ruling committee at the US Federal Reserve Bank (Fed) have spent recent days reassuring financial markets that they do not intend to pick up the current pace of interest rate rises.
- Meanwhile in China, the most recent economic growth data highlighted the impact of lockdowns on this enormous economy. A slew of data – from retail sales and industrial production to unemployment levels in China's largest cities – pointed to new weakness as a result of COVID-19 restrictions. As a reminder, Shanghai (a city of some 25 million people) has been in lockdown since March. Authorities have indicated a potential easing of restrictions this week, with shops and restaurants potentially reopening with limited capacity. However, as China doggedly pursues its zero-COVID policy, there are concerns that Beijing will be the next major population centre to re-enter lockdown. There are growing expectations for China's central bank to act to help ease strains on the economy.
- Finally, we are coming to the end of the corporate reporting season for the first quarter of 2022, with the largest US businesses reporting their earnings for the period just gone, and announcing their outlooks for the period ahead. Overall, earnings figures have been strong, with company profits apparently resilient and growing at a healthy pace.

Market moves

Global share prices faced a challenging few days, with most major regional stock markets delivering either negative or flat returns for the week.

The price of UK government bonds – generally perceived as safe harbours for investors – rose over the week (the yields paid on these bonds, which move inversely to their prices, fell).

Somewhat counterintuitively, the price of gold (another traditional 'safe haven' asset) fell over the course of the week.

What to look out for this week

The heads of the world's leading central banks – Chair Powell of the Fed, Governor Bailey of the Bank of England, and President Lagarde of the European Central Bank – are due to speak publically at various points throughout the week. Investors will be listening closely for any signs of policy news.

A range of economic data is set for release throughout the week, including US retail sales and UK inflation.

Market performance (as at 13 May 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,137.9	0.6%	-1.3%	4.4%
MSCI United Kingdom Mid Cap	1,209.2	1.0%	-3.9%	-16.6%
MSCI United Kingdom Small Cap	392.0	0.6%	-4.3%	-17.3%
MSCI World (GBP)	2,112.1	-1.1%	-0.6%	-6.6%
S&P 500 (GBP)	4,023.9	-1.3%	0.1%	-5.9%
MSCI Japan (GBP)	1,143.9	-1.0%	0.8%	-7.2%
MSCI Europe ex-UK (GBP)	1,506.3	0.1%	-2.2%	-10.7%
MSCI Pacific ex-Japan (GBP)	1,600.0	-1.8%	-2.9%	2.3%
MSCI Emerging Markets (GBP)	59,537.8	-1.5%	-4.1%	-9.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,225.7	2.6%	1.2%	-9.2%
BoA Merrill Lynch Index-Linked Gilts	588.6	7.3%	2.2%	-10.0%
BoA Merrill Lynch £ Corporate	423.8	1.6%	0.5%	-9.5%
Commodities				
Oil (West Texas Intermediate, GBP)	$110.5	1.8%	8.5%	62.6%
Gold (GBP)	$1811.6	-2.7%	-2.6%	11.2%
S&P / GSCI (GBP)	3,938.9	0.7%	4.2%	57.3%

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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