



WEEKLY BULLETIN

Difficult decisions in Europe as economic growth stagnates

Key takeaways

Strong news for the US economy took a toll on bond markets, while weak news on the European economy impacted financial markets closer to home. In China, government steps to ban iPhones impacted Apple's share price.

- Government bond yields rose last week, and bond prices (which always move in the opposite direction to yields) fell. This was driven by several factors, including strong US economic news, such as positive survey data in the services sector and a low level of new unemployment claims. Strong economic data led markets to fear still higher interest rates in the US, which would push down the price of existing bonds. The higher oil price (which has risen due to production restrictions from oil suppliers) also played a part in the bond market unease, as did the wave of new corporate debt coming to the market.
- While stronger US economic news buffeted bond markets in the US, weaker economic news in Europe pushed European financial markets lower (although European assets have still seen strong gains overall in 2023). The European economy looks quite unwell at the moment, with figures for economic growth in the second quarter of this year just revised to a lower level, indicating that growth in Europe has stagnated since last Autumn. German industrial production data was also weak, suggesting that Germany is likely suffering a manufacturing sector recession at present. Many factors have fed into this, including an economic slowdown in China, which has led to falling demand for overseas imports from exporters like Germany.
- Chinese authorities are seeking to ban iPhones from government-backed agencies and state-owned companies, which is believed to signify a pushback on China's reliance on US tech. Since Apple makes approximately one fifth of its revenue in China, the tech giant's share price fell by around 6% in response to the news, losing \$200bn of value in the marketplace and creating ripple effects for share prices elsewhere in the technology sector. While the number of state-owned companies and government employees in China is substantial, it's also worth noting that Apple makes the majority of the world's iPhones in Chinese factories, which employ millions of Chinese people. This in itself could limit any further spread of the ban.

Market moves

In a tepid start to the month, stock markets have delivered roughly flat performance (a little above or below 0%) in the opening days of September.

Bond prices fell and bond yields rose in response to strong US economic data.

What to look out for this week

A range of economic data is due for release throughout the week, including an update on US inflation and the latest UK growth news.

Given the current state of Europe's economy, the European Central Bank's leading policymakers have some difficult decisions to make when they meet this week. They will announce their latest interest rate decision on Thursday.

Market performance (as at 8 September 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,135.5	0.4%	0.7%	3.0%
MSCI United Kingdom Mid Cap	1,237.7	-0.1%	-0.3%	12.5%
MSCI United Kingdom Small Cap	358.8	-0.4%	-0.7%	1.7%
MSCI World (GBP)	2,317.3	-0.3%	0.3%	10.9%
S&P 500 (GBP)	4,457.5	-0.2%	0.4%	13.2%
MSCI Japan (GBP)	1,438.6	0.4%	1.2%	9.4%
MSCI Europe ex-UK (GBP)	1,607.0	-0.7%	-0.8%	8.0%
MSCI Pacific ex-Japan (GBP)	1,547.8	-0.8%	-0.9%	-7.2%
MSCI Emerging Markets (GBP)	59,652.3	-0.1%	0.9%	0.4%
Bonds				
BoA Merrill Lynch Conventional Gilts	970.0	0.0%	-0.5%	-4.1%
BoA Merrill Lynch Index-Linked Gilts	403.8	-0.6%	-1.2%	-5.8%
BoA Merrill Lynch £ Corporate	380.0	-0.1%	-0.3%	0.9%
Commodities				
Oil (West Texas Intermediate, GBP)	\$87.5	3.4%	6.3%	5.2%
Gold (GBP)	\$1927.8	0.4%	0.7%	2.4%
S&P / GSCI (GBP)	3,703.6	2.6%	4.4%	2.1%

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