30 October 2023

Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Nervous investors await interest rate news

Key takeaways

In a bumpy week for financial markets, unexpectedly hot US economic growth alongside conflict in the Middle East unnerved markets. Investors are now waiting for the next interest rate decision from the US central bank.

- The latest US economic growth data was released last week. The figures showed that the US economy had grown at a much faster annual pace (4.9%) than expected over the third quarter of 2023. This surge in growth was driven mainly by consumer spending, which rose by 4% over the three months to the end of September (the third quarter), compared to just 0.8% over the three months to the end of June (the second quarter).

- Given that the US central bank has been attempting to slow down economic activity in order to bring high inflation to heel, a higher growth rate would imply that it will raise interest rates again at its next meeting later this week. However, recent figures have also shown that spending power for US consumers fell during the third quarter of the year, so how have consumers been funding their economy-boosting spending sprees? There are two obvious candidates: first, the spare savings built up during pandemic lockdowns, and second, spending on credit cards. We suspect that the former stockpiles have already run dry, and the latter is not a sustainable driver of economic growth. The US central bank has a lot to consider when making its next decision.

- Financial markets were uneasy last week, influenced not only by concerns about the future path for interest rates in the US, but also by the ongoing conflict in the Middle East. In spite of the conflict's potential knock-on effects for the world's oil supply, the oil price continued to decline over the week (though there was some recovery in price levels over the weekend). Against this backdrop of geopolitical conflict and interest rate concerns, the US stock market struggled. Energy sector share prices were particularly weak, driven lower by disappointing news about company earnings among traditional energy giants (like Exxon Mobil and Chevron) over the third quarter of the year.

Market moves

An anti-risk feeling among investors was bad news for riskier asset types like shares last week. North American share prices were most heavily penalised, while share prices in Japan, Europe and emerging markets proved to be more defensive.

In keeping with the wider market mood, traditionally safer asset types were in favour, boosting the prices (and lowering the yields) on developed market government bonds.

What to look out for this week

The US central bank will give its next policy update on Wednesday, and is widely expected to hold interest rates steady despite recent US economic growth news.

Perhaps more interesting to investors will be Thursday's update from the US Treasury, when it will announce how much national debt the US will issue in the closing months of this year, in order to fund a worsening government budget deficit.

Market performance (as at 27 October 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,090.4	-1.7%	-4.0%	1.0%
MSCI United Kingdom Mid Cap	1,134.6	0.1%	-6.3%	3.7%
MSCI United Kingdom Small Cap	326.9	-0.9%	-8.1%	-6.9%
MSCI World (GBP)	2,156.4	-2.1%	-3.7%	5.9%
S&P 500 (GBP)	4,117.4	-2.5%	-3.4%	7.6%
MSCI Japan (GBP)	1,375.0	0.0%	-2.7%	7.0%
MSCI Europe ex-UK (GBP)	1,511.0	-0.8%	-4.0%	3.2%
MSCI Pacific ex-Japan (GBP)	1,483.5	-0.3%	-3.2%	-8.8%
MSCI Emerging Markets (GBP)	56,640.4	-0.6%	-2.9%	-2.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	957.9	1.1%	-0.7%	-5.3%
BoA Merrill Lynch Index-Linked Gilts	386.5	1.7%	-2.0%	-9.8%
BoA Merrill Lynch £ Corporate	379.4	0.9%	-0.5%	0.7%
Commodities				
Oil (West Texas Intermediate, GBP)	$85.5	-4.1%	-5.4%	5.6%
Gold (GBP)	$1982.9	-0.2%	6.5%	8.3%
S&P / GSCI (GBP)	3,679.7	-1.4%	-1.4%	4.3%

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.

Important Information