



WEEKLY BULLETIN

Markets remain distracted by a strong US economy

Key takeaways

The widening conflict in the Middle East held media headlines around the world last week. For the most part, financial markets continued to be distracted by economic news, though there are signs of rising price volatility.

- Bond and stock markets continue to appear to be a step removed from events in the Middle East, with their focus trained on the potential for stubborn inflation after strong US economic data was released. Bond prices fell (and bond yields, which always move in the opposite direction to bond prices, rose) last week, reflecting investor fears about signs of ongoing resilience in the US economy, such as in the jobs markets. Investors fear that this could push the US central bank into raising interest rates further, as part of the effort to bring inflation to heel and engineer a gentle economic slowdown. This nervousness spilled over into stock markets too, with share prices weakening and share price volatility picking up.
- However, commodity markets have certainly taken note of the conflict in Israel and Gaza. The Middle East is at the centre of the world's oil production, and the price of oil has been choppy so far this month, with rising prices reflecting supply concerns last week. Meanwhile, the price of gold has been rising. Gold has a reputation as an investor 'safe haven', but has not always appeared to live up to this status in recent years. However, events in the Middle East have increased investor demand for gold, boosting its price. The gold price has also been bolstered by record levels of gold-buying by central banks in countries opposed to US sanctions against Russia. These nations are eager to lessen their reliance on the US dollar, and are increasingly opting to hold gold versus other traditionally less risky assets, such as US government bonds.
- In the UK, the latest inflation news showed that prices had risen by 6.7% in the year to the end of September. The headline inflation rate, measured by the Consumer Price Index (or CPI), remained unchanged versus August. (As a reminder, this does not mean that prices were unchanged between August and September, but that they continued to rise at the same pace of 6.7%). Many analysts are predicting a sharper drop in inflation in October, as the effects of lower energy prices filter through into the economy. The Bank of England (which watches inflation levels very closely) is expected to hold interest rates at their current levels for the rest of 2023.

Market moves

Financial markets endured a challenging week (to 20 October), with the prices of both bonds and shares falling across major markets.

Gold has recently been living up to its 'safe haven' reputation, which often kicks in during times of geopolitical tension. The gold price has risen accordingly.

The oil price remains in flux, responding in real-time to events in the Middle East as they unfold.

What to look out for this week

A range of economic updates are due for release throughout the week, including the rate of US economic growth over the third quarter of 2023, and the latest UK employment data.

The European Central Bank will announce its latest interest rate decision on Thursday. No change is expected.

Market performance (as at 20 October 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,125.8	-2.5%	-2.4%	2.7%
MSCI United Kingdom Mid Cap	1,133.5	-4.3%	-6.4%	3.5%
MSCI United Kingdom Small Cap	329.9	-2.6%	-7.3%	-6.1%
MSCI World (GBP)	2,201.6	-2.6%	-1.7%	8.1%
S&P 500 (GBP)	4,224.2	-2.5%	-1.0%	10.4%
MSCI Japan (GBP)	1,378.8	-2.7%	-2.7%	7.1%
MSCI Europe ex-UK (GBP)	1,518.0	-2.8%	-3.2%	4.1%
MSCI Pacific ex-Japan (GBP)	1,493.2	-2.1%	-3.0%	-8.6%
MSCI Emerging Markets (GBP)	57,051.4	-2.8%	-2.4%	-1.7%
Bonds				
BoA Merrill Lynch Conventional Gilts	947.6	-2.1%	-1.8%	-6.3%
BoA Merrill Lynch Index-Linked Gilts	380.1	-3.4%	-3.7%	-11.3%
BoA Merrill Lynch £ Corporate	375.9	-1.5%	-1.4%	-0.2%
Commodities				
Oil (West Texas Intermediate, GBP)	\$88.1	0.4%	-2.5%	8.8%
Gold (GBP)	\$1988.5	4.1%	6.8%	8.5%
S&P / GSCI (GBP)	3,734.2	0.8%	0.1%	5.8%

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