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Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

The Bank of England sticks to the global script

Key takeaways

In keeping with its international counterparts, the Bank of England raised interest rates again last week. Meanwhile, there were positive signs for US inflation, and 'debt ceiling' negotiations rumbled on in Congress.

- The Bank of England hiked interest rates again last week, marking its 12th consecutive rate increase by taking the benchmark rate to 4.5% – the highest level since the global financial crisis in 2008. The majority of the Bank's policymaker committee (7 of 9 members) voted for the increase, and the announcement also included updates on the Bank's outlook for inflation and economic growth. Both moved higher, with the Bank no longer forecasting a UK recession due to the level of demand at work in the domestic economy. Financial markets still anticipate another interest rate rise to come, but comments from Bank Governor Bailey indicate that we are nearer to the end than the beginning of UK interest rate rises this time around.
- In the US, the Consumer Price Index (or CPI) showed that inflation was slightly weaker than expected in April, encouraging hopes that the US central bank's interest rate hikes are working to bring pricing pressures to heel. In recent history, US inflation has been pushed higher by shelter (rental) costs, which are starting to ease off. However, pricing pressures in areas such as used cars/trucks remained stubbornly high. Nevertheless, the latest figures mark the 10th consecutive monthly drop in US CPI.
- Sticking with the US, negotiations over the government 'debt ceiling' continued, with President Biden meeting congressional leaders for further talks. As a reminder, the debt ceiling is a cap on the amount of money the US government can borrow to pay its bills: a limit which was technically reached back in January. The Treasury is therefore spending reserves from its so-called 'Treasury General Account' which could run out as early as 1 June. The debt ceiling is regularly extended, but discussions around it are highly politicised and tend to go down to the wire. As a result, this topic could be a theme throughout May.
- Data from the US central bank's Senior Loan Officer Opinion Survey on Bank Lending Practices was also released last week. The survey addressed changes in the terms of (and demand for) bank loans to businesses and households over the past three months, and pointed to tightening lending standards at work in the US banking sector. This is in keeping with what we'd anticipate, given our expectations for a period of weaker global economic growth.

Market moves

In a mixed week for stock market performance, UK shares were among the laggards while US and Japanese share prices led the way higher. Responding to the latest US inflation news, technology stocks performed well as investors expressed a preference for growth-oriented businesses.

Bond markets were slightly more jittery, reflecting concerns about economic growth and political negotiations over the US government debt ceiling.

What to look out for this week

Economic data due for release this week includes a range of updates from China. Markets will be watching this very closely, given China's mixed recovery (so far) following the end of its 'zero COVID-19' policies.

The G7 summit begins on Friday, with representatives from the UK, US, Canada, France, Germany, Italy, and Japan, as well as the EU, meeting to discuss a range of issues. Russia's ongoing invasion of Ukraine is likely to receive top billing.

Market performance (as at 12 May 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,224.7	-0.2%	-1.3%	5.6%
MSCI United Kingdom Mid Cap	1,272.1	-0.6%	-1.0%	14.2%
MSCI United Kingdom Small Cap	372.1	-1.0%	-1.2%	4.3%
MSCI World (GBP)	2,189.1	0.8%	0.0%	5.1%
S&P 500 (GBP)	4,124.1	0.9%	-0.2%	4.2%
MSCI Japan (GBP)	1,275.2	1.9%	3.5%	5.7%
MSCI Europe ex-UK (GBP)	1,645.5	0.3%	-0.3%	11.3%
MSCI Pacific ex-Japan (GBP)	1,612.3	0.0%	-0.2%	-2.3%
MSCI Emerging Markets (GBP)	58,698.5	0.3%	0.4%	-1.1%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,008.4	-0.1%	-0.7%	-0.3%
BoA Merrill Lynch Index-Linked Gilts	422.3	0.4%	-1.5%	-1.5%
BoA Merrill Lynch £ Corporate	386.2	0.1%	-0.2%	2.5%
Commodities				
Oil (West Texas Intermediate, GBP)	\$70.0	-0.6%	-8.1%	-15.7%
Gold (GBP)	\$2019.9	2.1%	2.7%	7.4%
S&P / GSCI (GBP)	3,150.3	0.0%	-3.7%	-13.1%

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Registered Head Office: No.1 Kingsway, London WC2B 6AN. Registered in England No: 4132340 wealthandasset.handelsbanken.co.uk