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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

An inflation spike, or just a bump in the road?

Key takeaways

Economic data held the spotlight last week, with economic contraction in the UK, higher interest rates in Europe, and higher inflation readings in the US.

- The UK economy shrunk by 0.5% in July, with wet weather and strike action by teachers and NHS workers among the reasons given for the unexpected level of economic contraction. We believe that the delayed impact of central bank policies over the past 18 months or so (including a spate of higher interest rates) is now beginning to show up in the UK economy. After a period of strength, the UK employment market is weakening, suggesting leaner times ahead for consumer spending. Some signals from financial markets suggest that investors now expect the high point for UK interest rates to be 5.5%, rather than 6.5% as previously broadly predicted. As a reminder, the benchmark UK interest rate is currently 5.25%, which means that we could already be close to this peak.
- Sticking with interest rate news, in mainland Europe interest rates were increased again. The European Central Bank's benchmark rate now stands at 4%, and its ruling council must debate where to go from here. Financial markets are convinced that there will be no further rate hikes in Europe, and indeed that rate cuts will begin next year.
- In the US, the latest inflation updates (measured by the Consumer Price Index, or CPI) appeared to send some mixed messages. Core CPI (which excludes more volatile priced items like food and fuel) continued to fall in August, but headline CPI (which does include these items) rose over the month. This move back upwards in inflation (at least partly due to higher energy costs) has also shown up in Europe, and could well appear in UK inflation data in the near future. However, it's important to bear in mind that 'disinflation' (the easing of inflationary pressures) is a process, and inflation readings do not move in purely straight lines over time. Our view is that this spike upwards will turn out to be a bump in the road amid a broadly downward trend for inflation.

Market moves

It was a solid week for stock markets. Unusually for 2023 so far, UK and European share prices outperformed their US counterparts.

In bond markets too, the UK outperformed its global peers.

Commodity prices rose, particularly in the energy sector.

What to look out for this week

Not one but three major central banks will announce their latest interest rate decisions this week: the US Federal Reserve Bank on Wednesday, the Bank of England on Thursday, and the Bank of Japan on Friday.

The latest inflation data for the UK will also be released on Wednesday, with markets no doubt watching to see if – like the US – the UK will see a spike in pricing pressures.

Market performance (as at 15 September 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,203.6	3.2%	4.0%	6.3%
MSCI United Kingdom Mid Cap	1,262.7	2.0%	1.8%	14.8%
MSCI United Kingdom Small Cap	365.2	1.8%	1.1%	3.6%
MSCI World (GBP)	2,328.4	1.2%	1.4%	12.2%
S&P 500 (GBP)	4,450.3	0.6%	1.0%	13.8%
MSCI Japan (GBP)	1,484.3	3.8%	5.0%	13.5%
MSCI Europe ex-UK (GBP)	1,627.5	1.5%	0.6%	9.6%
MSCI Pacific ex-Japan (GBP)	1,565.8	2.6%	1.7%	-4.8%
MSCI Emerging Markets (GBP)	60,138.3	2.0%	2.9%	2.4%
Bonds				
BoA Merrill Lynch Conventional Gilts	973.3	0.3%	-0.2%	-3.7%
BoA Merrill Lynch Index-Linked Gilts	406.9	0.8%	-0.5%	-5.1%
BoA Merrill Lynch £ Corporate	382.1	0.6%	0.2%	1.4%
Commodities				
Oil (West Texas Intermediate, GBP)	$90.8	4.5%	11.1%	9.9%
Gold (GBP)	$1927.7	0.7%	1.5%	3.1%
S&P / GSCI (GBP)	3,792.5	3.1%	7.7%	5.3%

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

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