



WEEKLY BULLETIN

Politics returns to centre stage in the US

Key takeaways

US government spending debates are set to go down to the wire, while China's post-COVID-19 recovery could be fading.

- US political wrangling continued last week, as President Biden's Democratic Party attempted to negotiate with the opposition Republican Party on the topic of government spending. The debt ceiling (a cap on the amount the government can borrow) was breached in January: since then, the US Treasury has been spending reserves, which could run out at the start of June. If the government cannot negotiate an increase to the debt ceiling (currently over \$31trn) before reserves run dry, it would be unable to borrow any more money or pay all of its bills. The debt ceiling is actually regularly extended, but negotiations do tend to go down to the wire. Talks are due to resume today, and Republicans are demanding spending cuts in exchange for their blessing.
- Meanwhile, it was a decent week for economic data in the US, with consumer spending still relatively robust despite higher prices and rising interest rates. Retail sales rebounded in April following months of back-to-back declines, though major US retailers have expressed caution about the outlook for the coming months. Housing market confidence also rose for a fifth month running. It's too early to say if the housing market will take off from here, as banks are now tending towards stricter lending standards – in no small part due to well-publicised banking sector collapses.
- Last week also played host to China's large monthly release of economic data. While the numbers for April looked strong, they came in below expectations. Most of the data also referred to a 'year on year' comparison, meaning that activity in April 2023 was being compared to April 2022, when the nation was in lockdown and economic activity was extremely low. Taking a two-year timeframe paints a less flattering picture: for example, retail sales were up 18% in April 2023 versus April 2022, but only rose by 2.6% versus April 2021. Industrial production showed similarly lacklustre results (up 5.6% in April 2023 versus April 2022, but only 1.3% versus April 2021). The initial burst of economic activity following the end of China's strict, zero-tolerance approach to COVID-19 appears to be waning. China's policymakers will be acutely aware of this, and have room to manoeuvre should they choose to act.
- Inflation figures in Canada will have caught the eye of global central bankers last week, as pricing pressures picked up after months of declines. Following a series of interest rate hikes, Canada's central bank has held interest rates steady since January this year, but may now look to increase rates again. As the world's leading central banks look to control inflation, such signs of a belated pickup in inflationary pressures are unwelcome, and could add to central bank caution about pausing/cutting interest rates later this year.

Market moves

Investors felt relatively pro-risk last week, with most major stock markets eking out positive returns.

In keeping with this, bond markets were weaker, with prices falling and yields (which move in the opposite direction to bond prices) rising. Gold – a traditional investor 'safe haven' – also gave back some of its recent price gains.

The oil price rose for the first time in a number of weeks, having drifted lower throughout 2023 so far. This is in spite of a decision by OPEC (Organization of the Petroleum Exporting Countries) to reduce oil production in order to put upwards pressure on its price.

What to look out for this week

Debt ceiling negotiations will continue in the US: as we write, President Biden is due to meet with House Speaker Kevin McCarthy at the White House for further talks.

An early look at May's private sector survey data (the Purchasing Manager's Index, or PMI) will be released this week, giving an insight into businesses' perceptions of the economy's health.

Market performance (as at 19 May 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,222.2	0.1%	-1.2%	5.6%
MSCI United Kingdom Mid Cap	1,272.3	0.1%	-0.9%	14.2%
MSCI United Kingdom Small Cap	373.6	0.5%	-0.7%	4.8%
MSCI World (GBP)	2,220.9	1.5%	1.5%	6.7%
S&P 500 (GBP)	4,192.0	2.0%	1.7%	6.3%
MSCI Japan (GBP)	1,320.5	1.5%	5.0%	7.3%
MSCI Europe ex-UK (GBP)	1,659.9	0.5%	0.2%	11.9%
MSCI Pacific ex-Japan (GBP)	1,607.9	0.2%	0.0%	-2.0%
MSCI Emerging Markets (GBP)	59,037.5	0.8%	1.2%	-0.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	988.2	-2.0%	-2.7%	-2.3%
BoA Merrill Lynch Index-Linked Gilts	405.5	-4.0%	-5.4%	-5.4%
BoA Merrill Lynch £ Corporate	381.5	-1.2%	-1.4%	1.3%
Commodities				
Oil (West Texas Intermediate, GBP)	\$71.6	2.5%	-5.8%	-13.7%
Gold (GBP)	\$1961.6	-2.6%	0.0%	4.6%
S&P / GSCI (GBP)	3,179.9	1.2%	-2.6%	-12.0%

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