Handelsbanken
Asset Management

7 February 2022

Weekly bulletin: Central banks are back in the spotlight

Key takeaways

Central bank news captured investor attention last week, with the Bank of England and European Central Bank providing their latest policy updates.

- The Bank of England (BoE) raised its key interest rate by 0.25% last week, but details on voting among the bank's key policymakers showed that some members would have liked to hike rates by as much as 0.5%. This led financial markets to anticipate a significant number of further interest rate hikes in 2022. BoE policymakers also voted unanimously to stop reinvesting the proceeds from maturing government bonds, bought as part of the bank's 'quantitative easing' programmes and designed to support economic recovery. These moves come in context of higher inflation figures in UK, which the BoE has forecast could top 7% in April for first time since the 1990s.

- Meanwhile, the European Central Bank kept interest rates unchanged this week. However, the tone of the bank's commentary has shifted meaningfully, bringing the prospect of higher interest rates in the near future into view.

- The latest US labour market data, released on Friday, showed a higher-than-expected increase in the number of new jobs added to the economy in January. Overall, US unemployment now stands at 4% – well below the historical peak hit in early 2020. This suggests that momentum in underlying US economic growth is still robust (albeit slower than in late 2020 and 2021), and could solidify the US central bank's rationale for raising interest rates further this year.

- The latest economic survey data (Purchasing Managers' Index, or PMI) points to slower growth in economic activity levels. Supply chain issues continue to play a part in this picture, but these are slowly improving and should ease through 2022.

- In stock market news, shares of Facebook's parent company – Meta – fell by 26% on Thursday after the company failed to meet its earnings estimates for the final quarter of 2021, and forecasted weaker-than-expected revenue growth for the next quarter. The steep decline in Meta's share price wiped out over $200bn of value in the company, and dragged down the wider US market on Thursday. As the week drew to a close, Amazon helped to reverse this to a certain extent by releasing positive results, causing the company's share price to rise by 14%. These outsized short-term swings in share prices of large US companies not only highlight rich share-price valuations, but could also indicate high levels of speculative investment. The sheer size of these businesses also highlights the high levels of concentration present in some stock market indices, such as the S&P 500 (an index tracking the share-price performance of the largest companies listed in the US), which investors should take care to note.

Weekly market moves

Thanks to a more upbeat end to week for risk assets like shares, most major regional stock markets found themselves in positive territory for February so far in sterling terms.

This positive opening to the month reversed some of the risk-averse market moves witnessed throughout January. The shares of small and mid-sized businesses (which have suffered in recent weeks) broadly performed well.

However, it was another negative week for bonds, as central bank updates led to yields around the world increasing (bond prices, which move inversely to yields, fell).

What to look out for this week

In a relatively muted week for planned economic news, UK economic growth data for the fourth quarter of 2021 will be released on Friday.

Market moves (as at 4 February 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,135.0	0.6%	0.8%	2.7%
MSCI United Kingdom Mid Cap	1,343.8	-0.6%	-1.7%	-8.3%
MSCI United Kingdom Small Cap	437.5	0.0%	-1.0%	-8.5%
MSCI World (GBP)	2,334.1	1.0%	-0.8%	-5.1%
S&P 500 (GBP)	4,500.5	0.7%	-1.2%	-5.4%
MSCI Japan (GBP)	1,187.3	1.6%	0.7%	-3.5%
MSCI Europe ex-UK (GBP)	1,639.2	1.0%	-0.4%	-5.6%
MSCI Pacific ex-Japan (GBP)	1,671.8	2.1%	1.8%	-3.0%
MSCI Emerging Markets (GBP)	69,410.9	1.6%	0.2%	-0.7%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,285.9	-1.7%	-0.7%	-4.7%
BoA Merrill Lynch Index-Linked Gilts	625.5	-3.3%	-1.7%	-4.4%
BoA Merrill Lynch £ Corporate	445.0	-2.3%	-1.7%	-4.9%
Commodities				
Oil (West Texas Intermediate, GBP)	$92.3	4.4%	2.7%	22.7%
Gold (GBP)	$1804.7	0.0%	-0.3%	0.0%
S&P / GSCI (GBP)	3,193.1	2.8%	2.2%	15.2%

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.

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