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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Hold your fire: central banks take a break

Key takeaways

With the latest economic data suggesting that inflation is falling back, last week saw the world's leading central banks choose to keep interest rates at their current levels.

- The Bank of England surprised markets last week by holding interest rates steady, keeping its benchmark interest rate at 5.25%. This move was supported by some of the latest available data, such as figures on economic activity (slowing) and employment markets (signs of weakening). Nevertheless, the vote among the bank's decision-making council was tight – five members voted to hold rates steady, while four voted for a further rate increase (to 5.5%). With this in mind, investors cannot be sure that last week's decision marks the end of the Bank's rate hiking journey this time around – it may simply signal a pause. Regardless, we continue to believe that we are close to peak interest rates globally.
- Indeed, the Bank of England wasn't the only central bank to sidestep an interest rate hike last week: central banks in Japan, Switzerland and (most importantly for the global economy) the US also held rates steady. Leaders at the US Federal Reserve Bank voted unanimously to maintain interest rates in a range of 5.25-5.5%, pointing to slowing gains in employment markets set against a solid pace of economic growth. This pause in interest rate hikes was expected, and one further rate rise is predicted for the US in 2023. It's worth noting that we may be seeing some early signs of regional disparity emerging between the likely way ahead for the world's central banks from here, which we will be watching closely.
- These central bank decisions are playing out against a backdrop of slowing inflation. In the UK, inflation in August (measured by the Consumer Price Index, or CPI) came in weaker than forecast, at 6.7% versus August 2022. Beneath this headline figure, lower food, accommodation and services prices worked to offset higher prices at petrol pumps. In mainland Europe, German producer prices marked their biggest fall on record – down by 12.6% in August versus the same period last year. As a reminder, a lower rate of inflation doesn't necessarily mean that overall prices are falling, but it does mean that the pace at which overall prices are rising is slowing down.

Market moves

It was a challenging week for financial markets last week, with both bond and share prices delivering broadly negative returns.

Weakness in the British pound softened some of the poor performance from overseas investments for UK investors, due to the translation effects from stronger currencies into a weaker one.

The price of gold rose, benefiting from the anti-risk market mood.

What to look out for this week

The latest figures on confidence levels for the all-important US consumer will be released on Tuesday.

We may see more evidence of moderating inflation this week, with some updates on US and European inflation due for release on Friday.

Market performance (as at 22 September 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,199.2	-0.2%	3.8%	6.1%
MSCI United Kingdom Mid Cap	1,238.5	-1.9%	-0.2%	12.6%
MSCI United Kingdom Small Cap	361.9	-0.8%	0.3%	2.7%
MSCI World (GBP)	2,266.0	-1.7%	-0.3%	10.3%
S&P 500 (GBP)	4,320.1	-1.9%	-0.9%	11.7%
MSCI Japan (GBP)	1,450.2	-1.4%	3.6%	11.9%
MSCI Europe ex-UK (GBP)	1,596.2	-1.0%	-0.4%	8.5%
MSCI Pacific ex-Japan (GBP)	1,527.3	-1.2%	0.5%	-5.9%
MSCI Emerging Markets (GBP)	58,966.3	-1.0%	1.8%	1.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	978.5	0.5%	0.4%	-3.2%
BoA Merrill Lynch Index-Linked Gilts	404.6	-0.6%	-1.0%	-5.6%
BoA Merrill Lynch £ Corporate	384.8	0.7%	0.9%	2.2%
Commodities				
Oil (West Texas Intermediate, GBP)	$90.0	0.2%	11.3%	10.1%
Gold (GBP)	$1927.4	1.0%	2.5%	4.2%
S&P / GSCI (GBP)	3,754.7	0.1%	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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