Handelsbanken
Asset Management

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Weekly bulletin: Geopolitics stir up trouble in financial markets

Key takeaways

Financial markets demonstrated that they are far from immune to geopolitics last week, as Russia-Ukraine tensions spilled over into investor nervousness. The week also included a mixed bag of economic data and some of the final updates in the latest US corporate earnings season.

- In geopolitical news, tensions between Russia and Ukraine continued last week. Reports of increased shelling activity in separatist regions prompted world leaders to warn that an invasion could be imminent, while Ukrainian soldiers have been told not to react. US and Russian representatives are set to meet this week, leading to hopes that the possibility of de-escalation remains.
- On a very different note, the week also played host to a range of economic data updates. US producer prices (measured by the Producer Price Index) pointed to plenty of evidence that prices remain inflated, but other data (from the Federal Reserve Bank of Philadelphia) suggested that we may now be reaching the peak of this situation. Globally, measures of inflation remain elevated, but there are signs that supply chain issues (which have fed into pricing pressures) are beginning to abate.
- In other economic news, measures of US consumer sentiment show ongoing signs of decline, highlighting consumer concerns around heightened inflation. Despite this, US retail sales have continued to rise.
- Overall, global economic data remains decidedly mixed, with evidence of a slowing pace in some economies. If this continues, it could have implications for central bank decision makers, potentially easing some of the pressure on central banks to raise interest rates at a rapid pace.
- The week also included some of the final updates in the latest US corporate earnings season. Most of the largest US-listed companies have now reported their results for the fourth quarter of 2021, and delivered their outlooks for the future. Earnings growth has improved, with businesses in the industrial, mining and consumer discretionary (non-essential consumer goods) sectors leading the way. Overall, the picture remains one of ongoing growth, albeit at a slower pace than in the earlier stages of the economic recovery.

Weekly market moves

An anti-risk mood pervaded markets last week, at least partly as a result of the Russia-Ukraine situation.

This, combined with potential early signs of peaking inflation, saw bond yields fall and their prices rise. Gold – a traditional 'safe-haven' asset – also rallied.

In keeping with this risk-averse atmosphere, stock markets came under pressure again, with an especially weak Friday placing a further drag on performance. The US continues to be the weakest market of the year so far in sterling terms.

What to look out for this week

The eyes of the world will be on the situation in Ukraine this week, with Russian and US representatives due to meet imminently.

A number of central bank policymakers will speak publicly throughout the week, including the Bank of England's Governor Bailey. Financial markets will be listening closely for any signs of policy changes ahead.

Market moves (as at 18 February 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,135.8	-1.7%	1.0%	2.8%
MSCI United Kingdom Mid Cap	1,331.8	-1.7%	-2.5%	-9.1%
MSCI United Kingdom Small Cap	428.7	-3.2%	-3.0%	-10.3%
MSCI World (GBP)	2,275.6	-1.6%	-3.6%	-7.8%
S&P 500 (GBP)	4,348.9	-1.4%	-4.8%	-8.8%
MSCI Japan (GBP)	1,180.0	-1.4%	-0.2%	-4.3%
MSCI Europe ex-UK (GBP)	1,625.0	-2.3%	-2.3%	-7.4%
MSCI Pacific ex-Japan (GBP)	1,701.0	0.1%	4.4%	-0.5%
MSCI Emerging Markets (GBP)	69,779.8	-0.5%	0.8%	-0.2%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,288.3	1.8%	-0.5%	-4.5%
BoA Merrill Lynch Index-Linked Gilts	640.8	3.3%	0.7%	-2.0%
BoA Merrill Lynch £ Corporate	445.7	0.9%	-1.6%	-4.8%
Commodities				
Oil (West Texas Intermediate, GBP)	$91.1	-2.0%	0.9%	20.5%
Gold (GBP)	$1893.6	3.6%	4.2%	4.6%
S&P / GSCI (GBP)	3,221.5	0.2%	2.7%	15.8%

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.