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Wealth & Asset Management

WEEKLY BULLETIN

US inflation is back under the microscope

Key takeaways

Last week rose to an unwelcome crescendo, with surprisingly high US inflation figures released on Friday. This was not well received by financial markets, who will now be watching closely for the next US interest rate decision.

- Friday played host to an unexpected rise in US inflation figures. Headline CPI (the Consumer Price Index, which tracks the price of a basket of goods and services over time) rose by 1% in May versus April, and by 8.6% versus May 2021 – the highest level since the early 1980s. The US central bank is likely to take this number into account when making its next interest rate decision this week. However, a number of the factors which feed into prices in the US are beginning to fall back from their recent highs, including fertiliser prices, the backlog of ships outside key US ports, and the cost of freight containers.

- This higher-than-expected inflation has increased concerns over a 'wage price spiral'. This is a phenomenon in which, as expectations for inflation increase, workers naturally begin to demand higher wages, and businesses then increase their prices to cover wage costs, adding to the inflationary environment and further influencing wage rise pressures. And indeed, there are early signs of workers demanding higher wages in the US, supported by high employment (meaning that there is little spare slack in the work force and employers cannot easily look elsewhere). However, if – as we believe – inflation in the US is peaking, wage pressures should also find a natural limit.

- Meanwhile in Europe, the situation is more complex. Last Thursday, a meeting of policymakers at the European Central Bank (ECB) gave us an insight into their unenviable task of managing inflation across 19 very different member economies. The gap between the highest and lowest inflation rates in the single currency region has jumped to its widest since the creation of the euro (inflation is 5.6% in Malta, but 20.1% in Estonia). The ECB currently plans to raise interest rates from -0.5% to -0.25% in July, and again in September (back to at least 0%).

- One part of the world not currently being impacted by rampant inflation is China, where CPI readings remained unchanged (at 2.1%) between April and May this year, and PPI (the producer price index – effectively the factory prices charged to wholesalers) has actively fallen. Given the volume of China's exports globally, the latter in particular is better news for pricing pressures in the rest of the world.

Market moves

In another tough week for stock markets, European share prices were among the hardest hit. Emerging markets provided a rare bright spot, with China's onshore stock market performing well.

Bond markets also struggled. The yields paid on US government bonds rose (and their prices fell) following the latest US inflation news, anticipating that the US central bank will need to deploy more measures to help control pricing pressures.

It was a rare poor week for the oil price in an otherwise strong 2022.

What to look out for this week

The eyes of financial markets will be on central banks this week, with meetings being held at the US, UK and Japanese central banks.

The most closely watched of these will be the US Federal Reserve Bank's interest rate decision, which is due on Wednesday. Another large rate hike is expected.

Market performance (as at 10 June 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,110.7	-2.6%	-3.4%	3.5%
MSCI United Kingdom Mid Cap	1,156.4	-3.2%	-4.2%	-19.9%
MSCI United Kingdom Small Cap	386.4	-3.4%	-4.1%	-18.3%
MSCI World (GBP)	2,063.8	-3.5%	-3.3%	-9.3%
S&P 500 (GBP)	3,900.9	-3.7%	-3.5%	-9.6%
MSCI Japan (GBP)	1,194.9	-0.7%	-0.7%	-7.4%
MSCI Europe ex-UK (GBP)	1,467.0	-4.6%	-4.3%	-12.4%
MSCI Pacific ex-Japan (GBP)	1,596.2	-3.1%	-1.6%	2.8%
MSCI Emerging Markets (GBP)	62,171.7	0.9%	0.0%	-5.1%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,146.9	-2.2%	-2.2%	-15.0%
BoA Merrill Lynch Index-Linked Gilts	521.6	-3.1%	-1.7%	-20.2%
BoA Merrill Lynch £ Corporate	406.2	-2.0%	-2.1%	-13.2%
Commodities				
Oil (West Texas Intermediate, GBP)	$120.7	2.9%	7.7%	75.8%
Gold (GBP)	$1830.0	0.6%	1.6%	11.2%
S&P / GSCI (GBP)	4,251.6	2.9%	6.4%	68.2%

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.

Important Information

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