

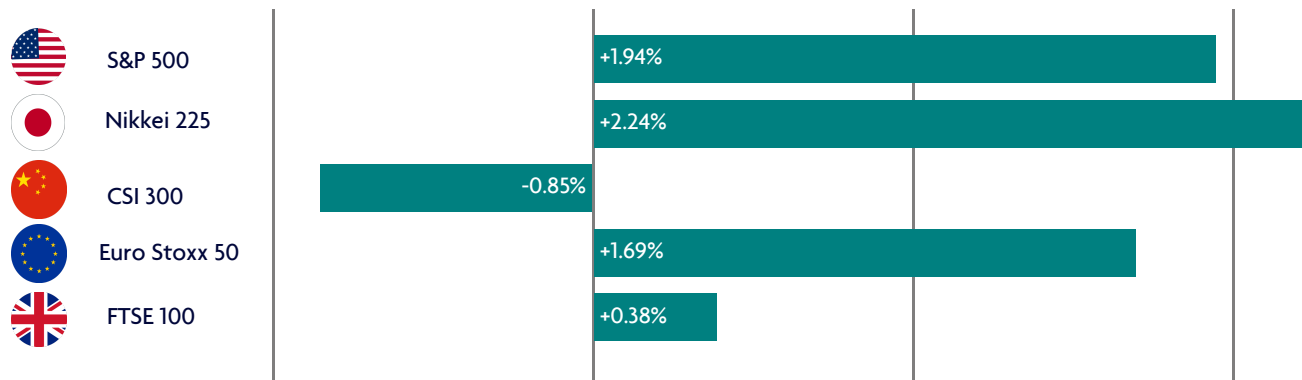
Weekly Market Update

11 July 2022

Investor sentiment was boosted somewhat last week as slowing economic growth and signs that inflation could be peaking soon could mean that central banks tone down their approach to raising interest rates aggressively. Political news dominated last week, with Boris Johnson announcing his intention to resign as Prime Minister. Further afield, former prime minister of Japan, Shinzo Abe, was shot and killed while giving a campaign speech



Market Monitor (%): How did major stock markets perform last week?



Market Update:



Boris Johnson announced his intention to resign after several Cabinet members stepped down in protest at his handling of a series of scandals that have rocked his administration. Boris said that he will remain as caretaker prime minister until the Conservatives choose a new party leader. As the Bank of England signalled this week, the UK remains in an economic difficult situation, with inflation at very high levels, and likely to be stickier than in other parts of the world and slowing economic growth.



Investors appeared mildly optimistic that the US could achieve what we call a 'soft landing', i.e. being able to slow the economy enough to bring inflation down, but avoiding a recession. The economy continues to slow down, and wage gains are beginning to cool down, but only very slightly. This could take the pressure off the Federal Reserve, the US central bank, raising interest rates too aggressively.



Europe

Shares rose during the week, but the gains appeared to be restrained by China's reimposition of some restrictions designed to curb the spread of the coronavirus and worries that an energy shortage might cause a recession in Europe. The European Central Bank looks likely to raise interest rates in July and Germany's trade balance showed a deficit the first since 1991 as exports fell unexpectedly, due to supply constraints. Meanwhile imports surged on higher prices for food, energy, and materials.



Japan

Former prime minister Shinzo Abe was shot and killed while giving a campaign speech last week. At the time of writing, Japan's conservative coalition government was projected to increase its majority in the upper house of parliament. The Bank of Japan remains committed to keeping interest rates low to support the economy, which is in stark contrast to other central banks, which are raising interest rates in an attempt to tame surging inflation. While inflation has picked up in Japan, it remains low compared with other developed economies.



China

Rising coronavirus cases and elevated geopolitical tensions hurt investor sentiment. Over 1 million people in the eastern province of Anhui are locked down as covid cases rise. On the geopolitical front, China-U.S. tensions heated up after a senior Chinese military officer warned his U.S. counterpart that any "arbitrary provocations" would be met with a "firm counterstrike" by China. Data suggests that China's economy is recovering from easing virus restrictions with both services and manufacturing sectors picking up activity in the month of June.



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