

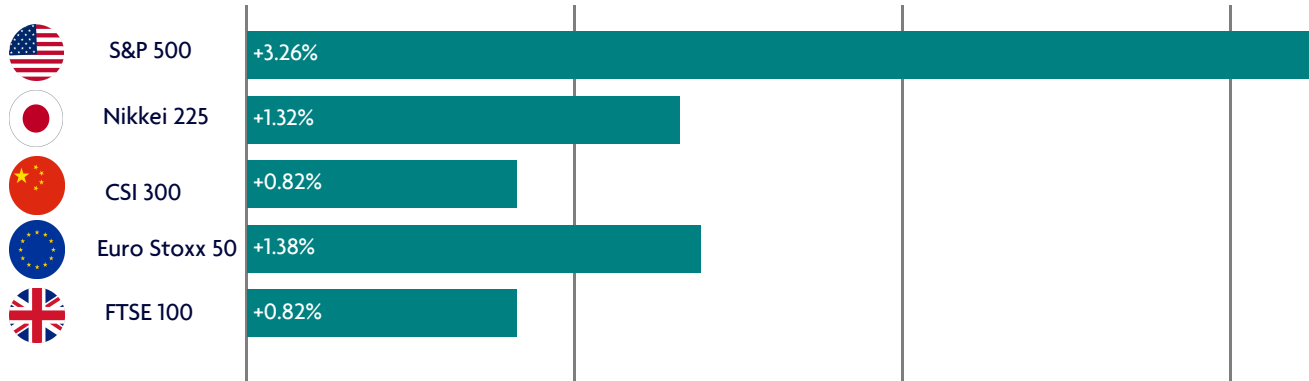
Weekly Market Update

15 August 2022

All eyes were on the US, particularly focussed on inflation data for the month of July. Signs that inflation may be peaking boosted confidence around the world. Political stability in Japan, rising Covid-cases in China, economic support for the cost-of-living crisis in Europe and a decline in economic activity in the UK all further influence markets during the week.



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



Market Update:



The UK economy contracted in June by 0.6% compared to May, though many had anticipated that the additional bank holiday for Queen Elizabeth II's jubilee celebrations would have a bigger impact. Regardless, in the second quarter of the year (i.e. the period between April and June), the UK economy declined by 0.1%. A commonly used definition of a recession is two consecutive quarters of economic decline, and the Bank of England expects a recession to begin by the end of this year.



Data showed signs that inflation, while still elevated on an annualized basis, had started to slow, supporting the view that the rise in consumer prices may have peaked. Inflation fell more than expected, down to 8.5%, down from 9.1% a month prior. This meant that investors think that the Federal Reserve could slow down the rate at which it raises interest rates and in doing so, could perhaps avoid sending the economy into a recession.



Europe

Investors reacted positively to the slowing inflation numbers in the US. Several major European countries announced that they would provide more emergency funds to bolster slowing economies and to help citizens tackle the cost-of-living crisis. On the economic front, Industrial production in the euro area rose for a third consecutive month in June. However, months of drought in Europe are severely affecting energy production, agriculture, and river transport.



Japan

Investors' risk appetite was supported by weaker-than-anticipated U.S. inflation data, which dampened expectations that the Federal Reserve would continue raising interest rates aggressively. The reshuffling of Japan's Cabinet during the week signalled policy continuity, also boosting sentiment.



China

The spike in coronavirus infections coupled with a continued housing market slowdown are considered among the largest risks to China's economy in the near term. Coronavirus cases in China climbed to a three-month high, roughly half of them recorded in the southern coastal island of Hainan, which was widely locked down last week. On a more positive note, the People's Bank of China said that it would closely monitor domestic and external inflation changes while balancing economic growth and price stability. China reported a bigger than expected trade surplus in July, with exports rising 18% from a year ago.



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