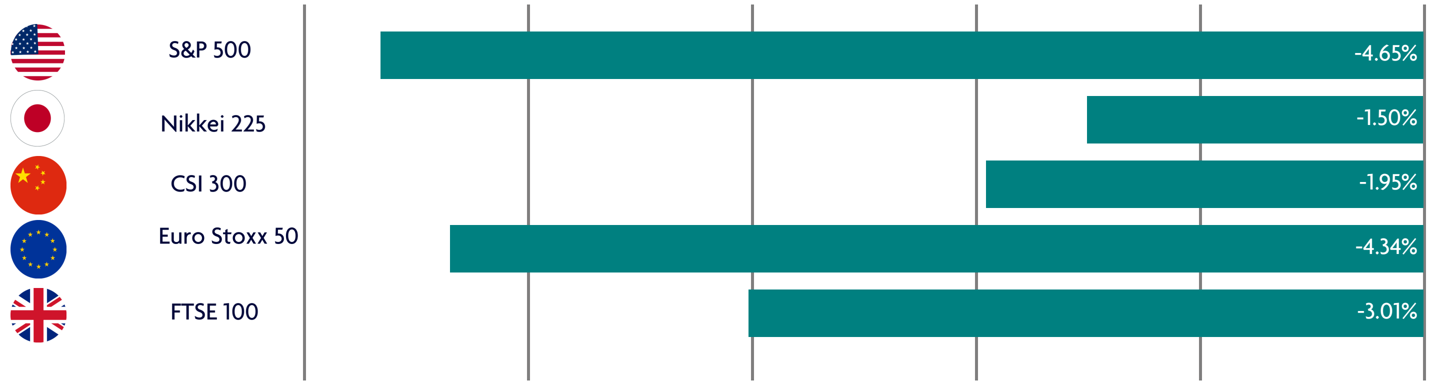
Weekly Market Update

26 September 2022

A week dominated by large interest rate hikes in the US, the UK and several countries across Europe. On Friday, the UK government unveiled large tax cuts – and markets did not react well. Further details of last week's interest rate hikes and tax cuts and can be found here.

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



Market Update:

UK

The British pound depreciated against the U.S. dollar, sinking to levels last hit in 1985. Fears of a looming recession and a less aggressive stance to interest rate hikes compared to the US contributed to this downward pressure. Inflation in the UK came in at 9.9% in August. This reading marked a decline from the 10.1% registered in July. Falling fuel prices drove this slowdown. However, core inflation, which excludes food and energy costs, quickened to 6.3% from 6.2%. The economy expanded 0.2% in July, after a drop of 0.6% in June, when there were two days of public holidays.

US

The Fed increased interest rates by 0.75 percentage points, bringing interest rates to a target range of 3-3.25%, the highest level since March 2008, which it was cutting rates. This week the Fed announced that it expects interest rates to continue rising over the next few months. Whilst the central bank believes that inflation will trend downwards in 2023, it also acknowledged the risk that sharp interest rate hikes could lead to a recession.

Europe

Shares in Europe pulled back amid signs of a deepening economic slowdown. The European Commission published proposals that could raise up to EUR 140 billion to soften the impact of soaring energy costs. Economic sentiment in Germany was worse than expected in September due to worries about energy shortages and declines in incoming orders, industrial production, and exports. Eurozone industrial production fell in July due to soaring energy costs and supply chain bottlenecks. The decline was the biggest in more than two years.

Japan

Largely speaking Japanese markets tracked losses seen in US markets because of the large interest rate hike in the US. This now means that the different in interest rates between the US and Japan is widening, which is negative for the Japanese currency. This week Japan intervened in the currency market to support the yen for the first time since 1998 as the yen continued to weaken. Despite inflation accelerating, the Bank of Japan has kept interest rates very low and has said that they don't believe they will be hiking rates anytime

China

Stock markets fell as global growth slowdown fears gripped investors. China is also facing a depreciation of its currency against the US dollar. In August, China took the decision to lower key interest rates. This together with the sharp hike in interest rates in the US, has left the Chinese yuan and other currencies around the world weakening. The economic outlook for China remains fragile, thanks to the persistent problems in the property market and continues coronavirus outbreaks.

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