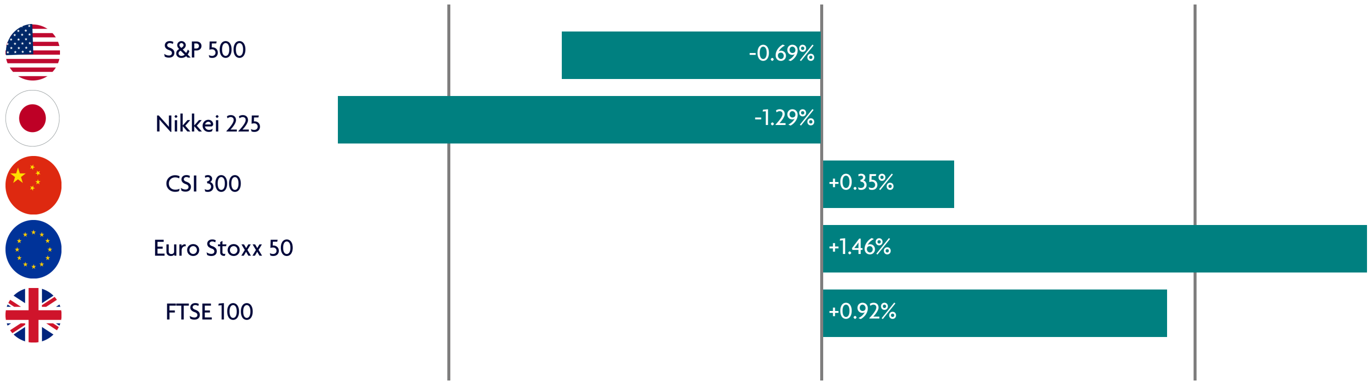
Weekly Market Update

21 November 2022

It was a mixed week for markets around the world. In the US, investors continue to look for reasons for the Federal Reserve to slow its interest rate rises. High inflation and poor economic data in Japan weighed in markets, whilst in China investors balanced their optimism of a gradual reversal of its zero-covid policies with the negative news of rising cases. In the UK, all eyes were on Jeremy Hunt's tax rises and spending cuts as inflation continues to soar

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



Market Update:

UK

Chancellor of the Exchequer Jeremy Hunt unveiled tax increases, spending cuts, and new fiscal rules with an eye toward repairing the public finances and restoring Britain's credibility. To plug a fiscal hole of £55bn, the government will raise taxes and cut spending. Much of a painful squeeze on public spending is planned to occur after the next general election in 2024. The Office for Budget Responsibility suggested that the UK economy would shrink 1.4% next year. Inflation in the UK accelerated more than expected and hit a 41-year high of 11.1% in October.

US

Investors kept a close eye on earnings reports from some prominent retailers and what they indicated about a potential economic slowdown. Shares of retailer Target fell sharply after the company reported flagging discretionary spending in recent weeks, but better-than-expected results from Wal-Mart, and some other retailers offered a more positive picture. Economic data was mixed, with some encouraging inflation numbers. However, bond markets are suggesting a recession in the US is on the horizon.

Europe

European Central Bank President Christine Lagarde said interest rates need to rise more as policymakers seek to fight inflation. This mean that yields on European government bonds rose and when yields rise, the prices of bonds fall. On the flipside, investors became less pessimistic for the second month in a row on hopes that inflation could soon slow.

Japan

Inflation rose to a 40-year high, exerting fresh pressure on the Bank of Japan, which remains committed to its low interest rate policy stance. The Japanese economy unexpectedly contracted in the third quarter of the year. The country continued to struggle to regain momentum following the coronavirus pandemic, with concerns about a global economic slowdown posing a further challenge. Nevertheless, growing private sector demand, the continued reopening of the domestic economy, and the government's stimulus measures should support a gradual pickup in economic growth.

China

Investors appeared to balance enthusiasm over easing COVID restrictions against worries about rising cases. While the breakout remained widespread, China's National Health Commission announced that it was stopping mass testing in districts not at risk of community transmission. It also announced plans to create new COVID-focused treatment centres, providing further evidence that the government was backing away from its "zero-COVID" policy. The impact of zero-COVID and the troubled housing sector on the consumer was evident in October retail sales report, which showed sharp year-on-year declines in nearly all categories.

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