

Weekly Market Update

13 February 2023



Broadly speaking markets were down across the world – for various reasons, but clearly focused on what’s next for central banks. In the US and Europe, any signs from the central banks on what’s next continues to drive markets. In Japan, investors await news on who the next central bank chief might be, whilst geopolitical tensions pick up in China. The UK economy avoided a recession in 2022, but only just.

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



Market Update:



UK

Despite a sharp economic contraction in December, the UK avoided a recession last year. For the last three months of 2022, the UK economy flatlined – which technically means we’ve avoided a recession. But it’s not all good news – the economy shrank significantly in December owing to a drop in activity in services. The UK is the only G7 economy not to have regained the ground lost during the pandemic.



US

The standout event was a plunge in the share price of Google parent Alphabet, which was down 10% during the week. At its first demo, Google’s new artificial intelligence based chatbot made a mistake, making investors, who had already been worried about Google’s ability to maintain its dominance in internet search, worry further. Whilst there weren’t any big economic surprises, investors remained focused on whether the Federal Reserve will continue hiking interest rates for much longer. Any indication either way is having an impact on day-to-day market movements.



Europe

Policymakers at the European Central Bank said during the week that inflation remains high and that, whilst this is the case, interest rates will continue rising. In other news, industrial activity in Germany looks to be better than expected due to strong orders, and improvement in confidence and easing supply bottlenecks. Inflation in Germany also appears to have slowed more than expected.



Japan

This week investors were speculating on who the next governor of the Bank of Japan will be and whether the new governor will change the central bank’s policy of ultra-low interest rates, as there are increasingly more signs that inflation in Japan is creeping up.



China

Markets fell as the spy balloon controversy fuelled tensions with the U.S. and offset expectations of faster economic growth following China’s exit from pandemic controls. Beyond geopolitics, China’s reopening appears to continue to drive increased activity in the country, though challenges about a weak property market and weakening export demand remain.



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