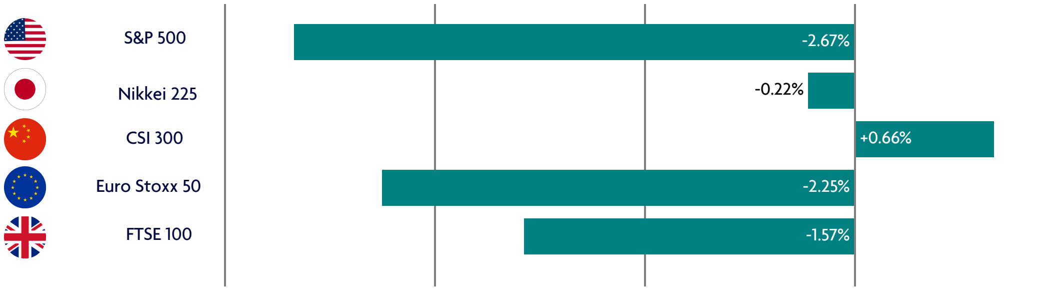
# Weekly Market Update

27 February 2023

**It was a challenging week for markets – higher inflation numbers point to potentially larger interest rate hikes, whilst economic activity in many parts of the world appears to show more resilient economies. This would allow central banks to continue raising interest rates if inflation remains high.**

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




## Market Update:

### UK

Business activity rebounded in February after six months of declining output, pointing to resilience in the UK economy. The rebound came from an increase in activity in both the manufacturing and services sectors. UK consumer confidence also rebounded in February, reaching its highest level in almost a year, in a sign of households' resilience despite the cost-of-living crisis. On Monday 27 February, Britain and the EU meet with the aim to seal a Brexit deal.

### US

Stocks fell sharply on signs that the inflation battle was far from over. The core personal consumption expenditures price index (excludes food and energy) jumped 0.6% in January. It's the first time since September that inflation has picked up. Consumer expectations were revised higher to its best level in over a year, jobless claims continue falling and sales of new homes reached their highest level since March 2022. However, some retailers reported disappointing earnings and suggested some tightening in household budgets. All of this is making investors speculate that the Federal Reserve may continue hiking rates for some time.

### Europe

Shares fell as better-than-expected economic data and corporate earnings raised the prospect that central banks might persist with interest rate increases. Inflation in the eurozone eased in January, even after data from Germany showed that consumer price growth remained elevated in the Eurozone's largest economy. The German economy shrank more than expected in the last three months of 2022, spurring fears of a recession. However, on a forward-looking basis, activity in the private sector across Europe appears to be picking up pace this month.

### Japan

Worries about interest rates in the US were balanced by supportive comments from the incoming Bank of Japan governor, who suggested that interest rates in Japan will continue to stay low for now, despite inflation being above 4%. The incoming governor acknowledged that inflation was being driven by rising import prices and not due to strong demand. On the economic side of things, the manufacturing sector saw a decline – reflecting a drop in new orders – while activity in the services sector continues to grow as the most recent wave of the covid pandemic subsides.

### China

Equities rose on hopes of increased regulatory support, offsetting the concerns about tensions with the US. Increasing economic activity in China has meant that its central bank has been able to keep interest rates low. However, China's yuan currency dropped to a seven-week low against the dollar after the release of unexpectedly strong U.S. inflation data, raising expectations that the Federal Reserve would keep raising interest rates. Signs of worsening U.S.-China relations also pressured the yuan.

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