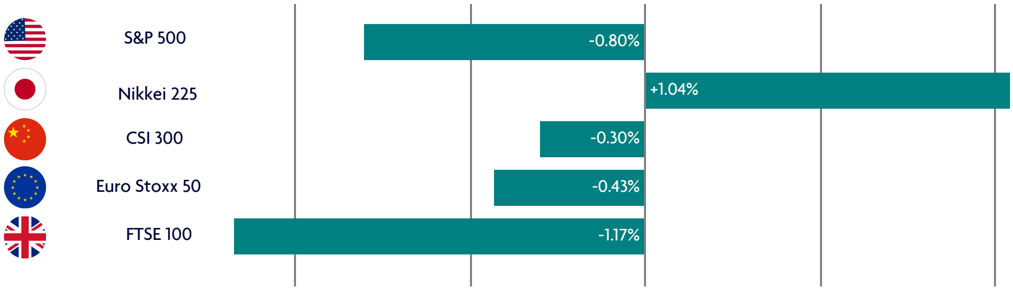
Weekly Market Update

9 May 2023

It was a relatively short week as many markets were closed on certain days for various holidays. Both the Federal Reserve and the European Central Bank rose interest rates, with indications that higher interest rates are likely to be around for longer than investors expect. The banking sector continues to suffer with further US regional banks in the spotlight this week.

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



Market Update:

UK

The UK housing market showed signs of stabilising in March as mortgage approvals for home purchases rose for a second consecutive month and construction activity picked up in April, adding to evidence that the economy improved last month. British retailers, pubs, hotels, and restaurants were all hoping for a boost in sales prompted by the coronation of King Charles III on Saturday after three years of subdued consumer demand.

US

As expected, the Federal Reserve raised interest rates by 0.25% points but indicated that they did not expect to cut interest rates as quickly as investors might expect. The prospect of higher interest rates for longer weighed on markets, as did the increasing uneasiness surrounding the need to raise the US debt ceiling, with indications that the US might not be able to meet its debt obligation as early as June. Volatility in the shares of regional banks rose as further regional banks look for lifelines.

Europe

Recession fears and banking tremors continued to weigh on sentiment in Europe. The European Central Bank raised interest rates by 0.25% points and indicated that interest rates would rise as much as they needed in order to bring inflation back to the 2% target. Inflation in the bloc accelerated to 7% though there are signs that pricing pressures may be easing, though slowly. Unemployment rate continues to fall across the Eurozone.

Japan

Markets were only open on Monday and Tuesday due to Golden Week celebrations. The sell-off in the Japanese yen helped to boost markets as it improves the outlook for Japan's exporters. The yen strengthened as fears of a US recession prompted demand for the safe-haven currency.

China

Financial markets in mainland China were closed Monday to Wednesday for the Labour Day holiday. Data suggests that activity in the manufacturing sector is declining. However, domestic tourism during the five-day holiday rebounded to pre-pandemic levels.

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