

Weekly Market Update

22 May 2023



A positive week for markets, driven by positive noise out of the U.S. debt ceiling negotiations, and signs that central banks may soon stop raising interest rates. In Japan, markets near a 33-year high, whilst in China, concerns that the economic recovery is losing steam weighed on markets. In the UK, the focus remains on inflation.

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



Market Update:



The big economic data out of the UK this week was around the labour market. Whilst unemployment crept up in the three months to end March, wage growth showed very little signs of easing during the period. In fact, the Governor of the Bank of England, Andrew Bailey, has acknowledged for the first time that the UK is dealing with a wage-price spiral, and he pledged to lift interest rates as far "as necessary" to get inflation back to the bank's 2 per cent target. He also said that he predicts inflation could start to slow significantly in April as energy increases drop out of the annual calculations.



The biggest catalyst for the week appeared to be a notable change in the tone around negotiations of the debt ceiling. President Joe Biden stated he was confident there will be no default, while Republican House Speaker Kevin McCarthy called a deal "doable" and Democratic Senate Leader Chuck Schumer stated that the only path forward was via a bipartisan deal. In terms of economic data, retail sales rose in April but did so at the slowest annual pace since the onset of the pandemic. On the flip side, industrial production rose more than expected in April, driven by an increase in car manufacturing. Data suggests the labour market remains more resilient than expected, with weekly jobless claims declining compared to the previous week.



Shares rose amid optimism that interest rates could be close to peaking and that the U.S. would avoid a debt default. Official data provided further signals that Europe might be sliding into an industrial recession. Industrial production in the Eurozone declined in March, after rising in February. Investor sentiment in Germany continues to fall amid concerns about rising interest rates. Elsewhere, The European Commission raised its forecasts for eurozone economic growth this year and next, and predicted inflation would remain stubbornly high.



Japan

Japan's stock markets registered their sixth consecutive weekly gain, boosted by good domestic earnings, a weakening currency and overseas investors buying Japanese equities. Sentiment was also supported by data showing that the Japanese economy grew by more than expected over the first quarter of the year, boosted by a post-COVID revival in consumption. Hopes that the U.S. government would reach a deal on raising the debt ceiling further added to investor optimism.



China

Official data showed industrial output, retail sales, and fixed asset investment all grew at a weaker-than-expected pace in April from a year earlier. And whilst unemployment fell in April, youth unemployment jumped to a record 20.4%, raising concerns that the post-pandemic recovery is not strong enough to attract new talent. Investors found these latest figures disappointing.



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