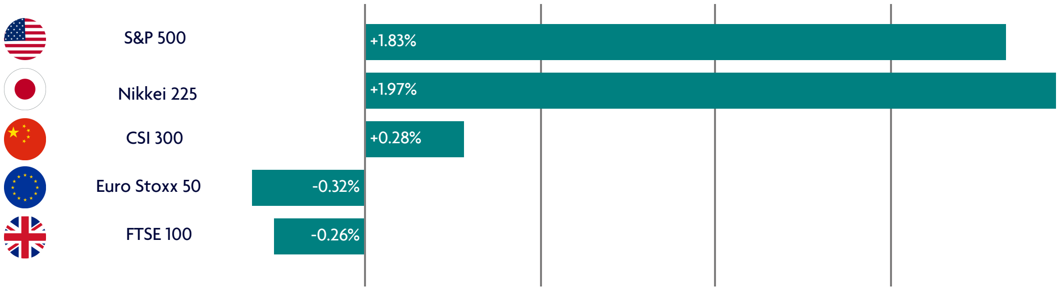
Weekly Market Update

5 June 2023

With the US Debt Ceiling being suspended, US and Asian equities rallied. Inflation remains sticky in Europe and the UK. The Japanese economy remains strong with potential for further growth, whilst manufacturing levels in China are weaker than expected.

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



Market Update:

UK

Business confidence in the UK fell to its long-term average of 28% in May, after three months of rising optimism. We know that inflation is set to continue to fall further in the UK and UK companies have said that they expect prices and wages to continue to rise over the next year, but they expect the pace to slow down. Expectations of another interest rate hike in the UK have increased, with markets expecting another hike by the Bank of England in June and with the potential for interest rates to raise as high as 5.25%.

US

The federal agreement to raise the debt ceiling seemed to have a limited impact on sentiment initially, but markets rose towards the end of the week as the bill was passed. Job openings rebounded more than expected in April, and more jobs than expected were added in May. This led to investors betting on another interest rate hike in the US this month. However, the unemployment rate also increased, in early signs that the labour market is cooling which would take the pressure off the Federal Reserve to raise interest rates.

Europe

Eurozone headline inflation slowed from 7.0% to 6.1% in May. The president of the ECB made it clear that inflation has remained high and that the path is not over to bring inflation levels back down to restrictive levels. Eurozone economic sentiment weakened more than expected, reaching a 6-month low according to the European Commission survey.

Japan

Continued strong foreign investor interest in Japanese equities led to another strong week. Good domestic earnings, a weaker currency and the passage of the US debt ceiling bill all boosted markets too. According to preliminary data Japan's hotels and other accommodation facilities recorded the highest level of overnight stays by foreigners since the outbreak of the coronavirus pandemic three years ago. Inbound tourism was boosted by the weak yen, an increase in international air traffic, and the start of Japan's cherry blossom season.

China

Similarly to Japan, equities in China rose after the US Senate passed the debt ceiling bill. Data suggests that China's manufacturing sector continues to struggle, and activity is declining. Whilst the service sector remains in expansion, it is beginning to cool off.

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