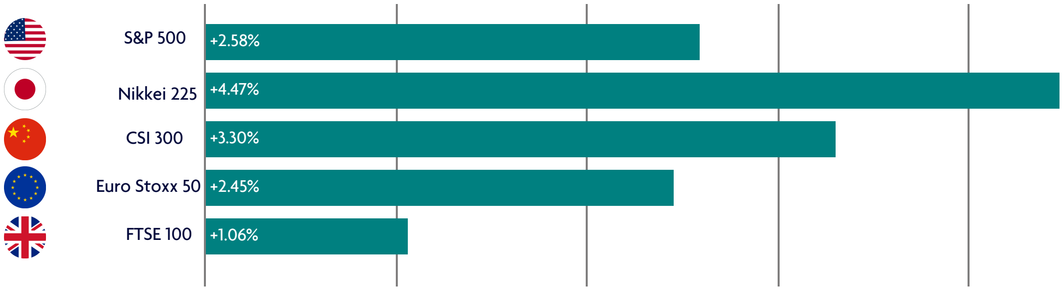
Weekly Market Update

19 June 2023

It was another good week for markets, with investor sentiment boosted by the US Federal Reserve's decision to pause interest rate increases. Meanwhile, China shows signs of willingness to provide support for the economy and Japan remains with its ultra-low interest rates. Whilst interest rates are set to continue to rise in the UK and Europe, this week markets sided with the positive news coming out of other parts of the world.

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



Market Update:

UK

A rebound in UK economic growth and stronger-than-forecast labour market data means that it is very likely that the Bank of England will continue raising interest rates – the next decision comes later this week. The economy grew in April, after contracting in March. Increased output in consumer-facing services, car sales, and education drove the gains. Separately, annual average wage growth climbed to 7.2% in the three months to April, while the unemployment rate fell back to 3.8%. The governor of the Bank of England said that they still think the rate of inflation is going to come down, but that it is taking a lot longer than they expected. The continued expectations of further interest rate increases have pushed the British Pound to a 14-month high against the US Dollar and is likely to impact UK households who are due to remortgage in the next 18 months.

US

Several signs emerged that the economy could be enjoying what is known as a 'goldilocks' expansion – with continued economic strength alongside falling inflation. Inflation has fallen to 4% and the US central bank, the Federal Reserve, did not raise interest rates last week but suggested that they could continue to hike interest rates in the months to come if needed. Meanwhile, the consumer side of the economy remains resilient, with retail sales continuing to rise and consumer sentiment rose more than expected.

Europe

The European Central Bank rose interest rates by 0.25 percentage points to 3.5% - the highest level in 22 years. The Central Bank said after the meeting that there was "still ground to cover" and that they would probably raise interest rates again in July, unless there was a "material change in the outlook." Meanwhile, markets reacted to the news coming out of the US and China and jumped during the week.

Japan

The great performance of Japanese equities this week was supported by the Bank of Japan's decision to keep interest rates at their ultra-low level. Stronger-than-expected Japanese export and machinery order data also boosted investor sentiment. Whilst inflationary pressures have put the ultra-low interest rate environment in the spotlight, the central bank has said that, despite the high uncertainty on the economic and inflation outlook, it expects consumer inflation to slow later this year.

China

A trio of indicators showed that China's economic activity weakened last month. Industrial output, retail sales, and fixed asset investment grew at a slower-than-expected pace in May. Unemployment remained unchanged, but youth unemployment jumped to a record 20.8%. The lacklustre data in recent weeks have led economists to lower the 2023 growth forecasts for China, which is dealing with slowing export demand, a yearslong housing market slump, and weak business and consumer confidence. Markets however were boosted by the central bank's decision to cut several interest rates, raising hopes for more economic stimulus to industries that are slowing amid the fading post-pandemic recovery.

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