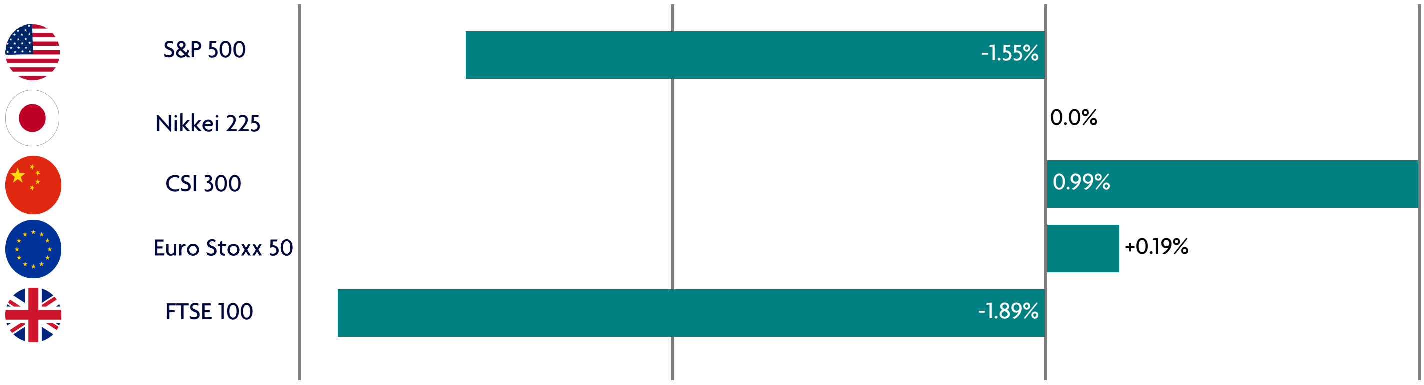
Weekly Market Update

17 October 2022

Inflation in the US remains elevated, paving the way for further large interest rate hikes. Economic news out of China looks poor, but support from the central banks supported markets. The UK economy contracted in August and unemployment continued to fall. Meanwhile, Prime Minister Truss bowed to pressure and altered her proposed tax plan.

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



Market Update:

UK

The UK economy unexpectedly shrank in August. Meanwhile, the unemployment rate fell to 3.5%, the lowest level since 1974, as the number of economically inactive people (that is people who are neither working nor seeking a job) jumped by a record amount. Continued fallout in the UK prompted the government to significantly alter its proposed tax plan. Prime Minister Truss replaced Kwasi Kwarteng as chancellor of the exchequer, appointing Jeremy Hunt. She also reversed a key proposal to scrap the increase in corporation tax, having earlier bowed to pressure to keep the top income tax rate of 45 pence per pound.

US

Inflation data showed that whilst increases in wholesale prices were slowing down, this was not yet filtering down meaningfully to consumers. Core consumer prices, which excludes food and energy, rose 6.6% on year-on-year basis in September. This was more than expected, above the previous March peak, and the fastest pace in four decades. Stocks fell sharply on the news but quickly rebounded – clearly highlighting how quickly sentiment changes and how difficult it is to predict market reactions to significant news. Because inflation appears to be staying higher for longer, this could mean that the Federal Reserve, which is the US central bank, could continue to raise interest rates aggressively.

Europe

Comments from members of the European Central Bank suggest that the European economy is heading into contraction and that it is prepared for a recession with high inflation. Industrial output in the Eurozone rebounded unexpectedly, but the higher cost of energy imports means that the trade deficit continues to increase. Meanwhile, the German government slashed its economic forecasts for the next two years because of price increases, energy shortfalls, and supply chain disruptions caused by Russia's invasion of Ukraine.

Japan

Investor sentiment for the weak was dominated by the implications that higher inflation in the US could mean quicker interest rate hikes in the US, as well as a weak Japanese Yen which has so far failed to respond to the government's intervention. Markets did recover on Friday off the back of a bounce back in stock markets in the US the previous day.

China

Markets were lifted by supporting central bank comments and anticipation of policy signals during the Communist Party Congress, a twice-a-decade gathering of the country's political elite which began yesterday. The People's Bank of China has said it will provide stronger support for the real economy. In economic news, China reported that tourism revenue during the weeklong National Day break, which is typically a peak period for travel and consumption, fell 26% from a year ago as coronavirus restrictions led many people to stay close to home.

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