Weekly Market Update

14 November 2022

Markets around the world rallied, with the news that inflation appears to be slowing in the US boosting investor sentiment around the world. A relaxation in China's zero-covid policies provided some further support in Asia. Meanwhile, economic contraction in the UK weighed on the UK stock market.

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

Market Update:

UK

The UK's economy in the third quarter contracted by 0.2%, the first quarterly decline since the start of 2021, when the country was in a coronavirus lockdown. The Bank of England forecast in September that the third quarter would be the start of a recession that could last up to two years. Chancellor of the Exchequer Jeremy Hunt said that tough decisions would need to be made on tax and spending in this week's budget. Hunt is expected to set out tax rises and spending cuts worth about £55bn a year as he seeks to fill a gaping hole in the public finances and regain UK fiscal credibility.

US

Headline consumer prices rose 0.4% in October, less than many had expected and bringing the year-over-year inflation to 7.7%. Whilst this inflation number is still well above the Federal Reserve's target, it is the slowest increase since January. Core inflation, which excludes food and energy, also fell in September. As inflation slows down, this could lead to the central bank rising interest rates less aggressively than they have done this year. Other important news items in the US were the midterm elections, where the Democrats have managed to retain control of the Senate, and the collapse of a leading cryptocurrency exchange – both of which contributed to market volatility.

Europe

Shares in Europe rose on slowing inflation in the U.S. Better-than-expected results this earnings season also appeared to lift investor sentiment, although the economic backdrop remains challenging. The European Commission forecast that the eurozone economy would contract in the final quarter of this year and shrink further in the first three months of 2023, due mainly to higher energy prices triggered by the war in Ukraine. Economic growth in 2023 is predicted to slow to 0.3% from 3.2% this year. The commission also raised its forecast for inflation to 8.5% this year and 6.1% next year.

Japan

Investor sentiment was boosted by the lower-than-expected U.S. inflation numbers, which raised expectations that the U.S. Federal Reserve could adopt a less aggressive interest rate hike plan. A relaxation of coronavirus restrictions in China also provided a boost. Meanwhile, the Bank of Japan asserted that it would retain its ultra-loose monetary policy to underpin the fragile economic recovery.

China

Shares in China received a late boost from the surprise drop in U.S. inflation but trailed most other global markets as investors worried about new signs of economic fragility. A surge in COVID cases threatened further lockdowns and appeared to weigh on sentiment for much of the week. However, on Friday, the government announced reductions in the mandatory quarantine time for in-bound travellers as well as testing requirements. On the economic side, exports fell in October and so did imports, due to weakening domestic demand.

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