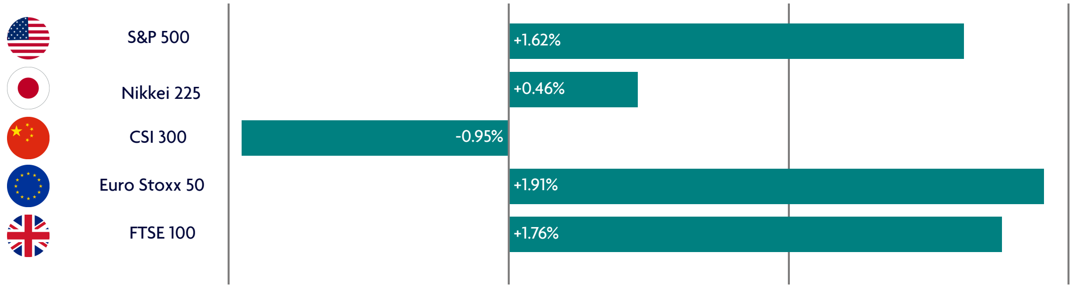
Weekly Market Update

6 February 2023

The US Federal Reserve, the Bank of England and the European Central Bank all raised interest rates this week as widely expected. But investors focused on their narrative after these interest rate hikes. In the US, things are getting better but the Fed is taking baby steps. The Bank of England is suggesting it is done with interest rate hikes as the economic slowdown will help bring inflation down and the European Central Bank has said they are not done with interest rate hikes just yet.

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



Market Update:

UK

The Bank of England (BoE) raised interest rates to 4% as expected. The BoE did however suggest that this could be the end of interest rate hikes, though markets aren't quite sure about that. The BoE projects that inflation will fall sharply this year, reaching 3% by early 2024. The BoE also continues to stand by its expectation that the UK will be in a recession this year but said that this was likely to be much shallower than it had previously forecast, largely due to a drop in energy prices. The International Monetary Fund projected that the UK economy would contract 0.5% this year.

US

Whilst Meta platforms released better than expected revenue numbers for the final three months of 2022, investor sentiment was tempered by more disappointing results from Apple, Amazon, and Alphabet. The US Federal Reserve raised interest rates by 0.25% points, which was widely expected, and warned to expect further hikes to keep inflation under control but acknowledged that inflation had eased and that they are seeing encouraging signs that price pressures were easing. This was seen as positive by investors. Data of a much stronger labour market tempered investor sentiment.

Europe

The European Central Bank (ECB) raised interest rates this week, by 0.5% points, as expected. The ECB said that it expects to raise interest rates by the same amount again next month due to underlying inflation pressures and would then evaluate what further hikes were needed after that. Meanwhile inflation continues to slow but core inflation, which excludes food and energy prices, remained at an all-time high. The Eurozone economy unexpectedly grew in the last three months of 2022.

Japan

Sentiment was boosted by expectations that the US Federal Reserve was slowing down the pace at which it raised interest rates. Closer to home, despite inflationary pressures building, the Bank of Japan continues with its commitment to low interest rates to support the Japanese economy. On the economic side, retail sales are growing and consumer confidence improving.

China

Data suggests that manufacturing activity has grown since Beijing abandoned its Coronavirus restrictions at the end of 2022. Activity in services is also on the rise. Exports however appear to be retreating as global demand continues to slow. The International Monetary Fund now expects China's economy to grow by over 5% this year. It's not all good news in China, as the property sector continues to struggle. New home sales have fallen significantly.

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