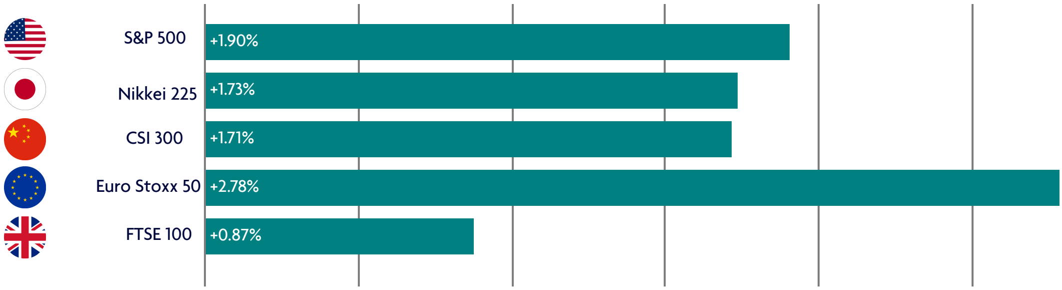
Weekly Market Update

6 March 2023

After weeks of losses, markets delivered positive returns across the board. In the US, mixed economic data meant investors took a breather. Japan gets a boost of optimism, whilst in China, despite strong data, the growth expected for 2023 is likely to underwhelm. Closer to home, the UK and the EU clinch a deal after years of post-Brexit tensions.

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



Market Update:

UK

Britain and the EU clinched a deal to settle their dispute over Northern Ireland trading rules in a turning point after years of post-Brexit tensions. The deal has won cross-party support at Westminster and has been hailed by global leaders as a significant step forward. The governor of the Bank of England, Andrew Bailey, said the central bank will make decisions based on data, rather than trying to suggest now what it might do in the future. Markets are expecting interest rates to reach 4.75% later this year. In other news, House prices declined in February by the most in 10 years.

US

There wasn't one specific thing that drove markets this week. This was mainly because, whilst there was a lot of economic data, it painted a mixed picture. There was some evidence that whilst the manufacturing sector continues to slow down, it is doing so more slowly. Meanwhile the service sector appears to still be holding up. There were also signs that home sale activity may bottom out soon.

Europe

Markets overcame worries about interest rates and focused on signs of an improving economic outlook. Inflation in the eurozone eased to an annual rate of 8.5% in February compared with 8.6% in January, mainly due to falling energy costs. However, core inflation, which excludes volatile food and energy costs and therefore provides a clearer picture of underlying price pressures, ticked up to 5.6% from 5.3%. The eurozone unemployment rate remains close to record lows.

Japan

Investors welcomed an emphasis of a continuation of low interest rates by Bank of Japan governor nominee, Kazuo Ueda, despite rising inflation. As households grapple with intensifying cost-of-living pressures amid the rising cost of items such as food and energy, Japan's Prime Minister has ordered the government to draft additional measures to counter price hikes. Investor sentiment was also boosted by signs that the Chinese economy was recovering from COVID lockdowns. Japan's easing of entry requirements for arrivals from mainland China was another positive.

China

Markets had hoped that the strong economic data published during the week raised prospects for a better-than-expected recovery. However, at the National People's Congress, China has now set a growth target of "about 5%" for 2023, its lowest target for more than three decades. If achieved, though, the target would represent a recovery from growth of just 3 per cent in 2022. Markets had already closed for the week before the Congress kicked off.

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