Weekly Market Update

27 March 2023

The last few weeks have been eventful, driven by turmoil in the banking sector. On Sunday 19 March, UBS agreed to purchase Credit Suisse and central banks across the world announced coordinated action to ease strains in financial markets. Markets reacted broadly positively. The US Federal Reserve and the Bank of England raise interest rates this week too.

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

Market Update:

UK

All eyes were on the Bank of England, who followed the Federal Reserve in raising interest rates by 0.25% points to 4.25%. The Bank of England's Financial Policy Committee has said that the UK banking system remains resilient. The interest rate decision came shortly after data showing that the pace inflation had quickened in February to 10.4% from 10.1% in January. Economically speaking, data is pointing to a more resilient UK economy, with the possibility that the UK economy could in fact grow in the first three month of the year.

US

Unsurprisingly, financial stocks performed more poorly. The Federal Reserve raised interest rates 0.25% points as expected. The Fed said that it did not expect to cut interest rates this year – this is in stark contrast to what the market expects which is interest rates coming down as early as June. Economic data continues to suggest that the economy remained in a strong position, at least until the turmoil in the banking sector.

Europe

Despite a positive week, bank stocks declined sharply towards the end of the week despite earlier gains on the news that UBS had agreed to buy Credit Suisse. The focus turned to Deutsche Bank but Germany's chancellor Olaf Scholz said that Deutsche Bank continues to be a very profitable bank and there is no reason to be concerned about it. Business activity in the Eurozone expanded faster than expected in March, driven by strong growth in the services sector. On the flipside, manufacturing activity fell across most countries.

Japan

The rate of consumer inflation slowed in Japan, with the contribution from energy falling notably, due to government electricity subsidies cushioning the impact of price pressures. Amid calls for further stimulus, a government panel endorsed plans during the week to add more than JPY 2 trillion to existing inflation relief measures. Activity in the services sector continues to strengthen given the government support and increase in Chinese tourism, but manufacturing continues to weaken as new orders continue to fall.

China

Stocks rose on hopes that the country's central bank will maintain supportive for the economy. This is important because, despite China's economic indicators picking up in recent months, as consumption and infrastructure investment rebounded from pandemic lockdowns, the recent developments in the banking industry are putting strains on global economic growth.

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