



» Weekly Investment Update

27th May 2022

News Headlines

Federal Reserve minutes – This week, the US Federal Reserve revised up the forecast for its preferred inflation gauge (the personal consumption expenditure index) to 4.3% in 2022 before decelerating down to 2.5% in 2023. Members of the committee are not seemingly too worried about the state of the economy or economic growth and are expecting it to “advance at a solid pace over the remainder of the year”. Officials agreed that they need to raise interest rates in 0.50% steps at their next two meetings, highlighting their “strong commitment and determination” to restore price stability. The two aggressive hikes will leave room for flexibility later in the year if needed.

UK financial package – The UK’s Chancellor of the Exchequer, Rishi Sunak, announced a £15 billion “cost of living” package this week, aimed at households struggling to cope with soaring living costs. Key announcements included in the package were several one-off payments for lowest income households, pensioners, those receiving non-means tested disability benefits, as well as an energy grant for all households which will be part funded by a 25% windfall tax on gas and oil company profits. After the windfall tax was announced, however, British Petroleum (BP) said it would look again at its plans in the UK.

Market Summary

Global Equities – Equity markets caught a break, as the MSCI World index returned +3.04% for the week as at Thursday’s close. Better than expected outlooks from the US retailers helped to bolster sentiment, coupled with increasing hopes that the Federal Reserve would not be too aggressive with their policy. In the US, the S&P 500 climbed 4.02%, bringing to an end seven consecutive weeks of negative returns. Equities in the UK and Europe also rallied, with the FTSE 100 and Stoxx 600 returning 2.40% and 0.88% respectively.

Commodities – Both oil contracts (Brent Crude & WTI) hit their highest levels in two months on Friday supported by the prospect of an EU ban on Russian oil and US stockpiles tightening ahead of the summer driving season in the United States.

Downbeat US data and mixed sentiment underpinned US dollar weakness as the dollar retreated from 20-year highs. This in turn pushed the price of gold higher, with the precious metal set for a second weekly gain.

Fixed Income – Sovereign bonds rallied in the US and Europe as investors have grown increasingly relaxed about inflation in recent weeks. The 10-year breakeven figure, which shows how markets are pricing in an average inflation rate over the next ten years, fell to its lowest level since March in Germany at 2.23%, while in the US the breakeven fell to a three-month low of 2.56%.

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Chart of the Week

Bear Market Rally Still Possible S&P 500 may pop toward 4500 within brutal downtrend



Source: Bloomberg – The US S&P 500 could still rally back to 4,500 despite being in a worrying downtrend

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	<ul style="list-style-type: none"> - US consumer confidence - China NBS manufacturing PMI - EU inflation flash yy 	<ul style="list-style-type: none"> - US ISM manufacturing PMI - Bank of Canada rate decision 		

Market Performance – 27/05/2022

Global Market Indices	2022 YTD %*
FTSE 100	4.24%
S&P 500	-14.50%
STOXX 600	-9.08%
Nikkei 225	-7.34%
Hang Seng	-13.29%
Fixed Income	Yield %
UK 10 Yr Gilt	1.94%
US 10 Yr Treasury	2.75%
Commodities	2022 YTD %
Gold	1.59%
Currency	
GBP/USD	1.26 (27/05/2022)
GBP/EUR	1.17 (27/05/2022)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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