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Investment Management

Weekly Investment Update

17th June 2022

News Headlines

Central bank policy – The US Federal Reserve raised its key interest rate by 0.75% after the committee's latest two day meeting this week, making it the biggest rate rise since 1994. Persistent high inflation forced the central bank's committee to rethink the 0.50% increase which was previously signalled by policymakers, as they pivoted abruptly to a more aggressive plan to tighten monetary policy. Officials also raised their interest rate forecasts compared to three months ago, with the individual interest rate projections now suggesting that the policy rate will rise to 3.4% by the end of 2022. The Bank of England also raised their key interest rate this week by 0.25%, not as aggressively as expected. Minutes from the Monetary Policy Committee meeting showed a dismal outlook for both economic growth and inflation, with inflation predicted to hit 11% by the end of the year. The majority of the committee agreed that the economy was already weakening enough to bring inflation under control, giving justification to the comparatively small rate increase.

Elsewhere, the European Central Bank (ECB) held an emergency meeting on Wednesday to discuss the recent selloff in government bonds and current market conditions. Italy's 10 -year bond yield surged past 4%, the highest since 2014, prompting the bank's governing council to pledge to accelerate plan to create a "new anti-fragmentation instrument" to help decrease the widening gap in the cost of borrowing between more stable economies such as Germany and more vulnerable economies like Italy.

Market Summary

Global Equities – Equity markets declined after this week's central bank rate decisions. The increasingly restrictive monetary policy soured investor sentiment as fears intensified that the policies could stamp out the global economic recovery. The US's benchmark S&P 500 index closed in a bear market (a drop of more 20% or more from recent highs) after a c.6% weekly fall, as government bond yields soared. In the UK, the FTSE 100 fell c.3% for the week as at Thursday's close, while in Europe, the STOXX 600 index dropped by c.5%.

Commodities – Both oil contracts (Brent Crude & WTI) declined from recent highs after US President Joe Boden called on US refiners to produce more fuels, and the Federal Reserve rate hike sparked fears that the US economy would eventually be pushed into a recession.

European natural gas prices jumped up by 20% on Wednesday as Russian gas monopoly Gazprom cut its supplies to its biggest customer, Germany, for the second day running.

Fixed Income – European sovereign bonds staged a large rally after the outcome of the ECB's emergency meeting on Wednesday. In the US, the yield on the 2-year Treasury had its largest two-day move since the collapse of Lehman Brothers bank, while the 10-year yield had its largest two-day move since December 2010. The 2/10 year yield curve inverted again for the first time since April.

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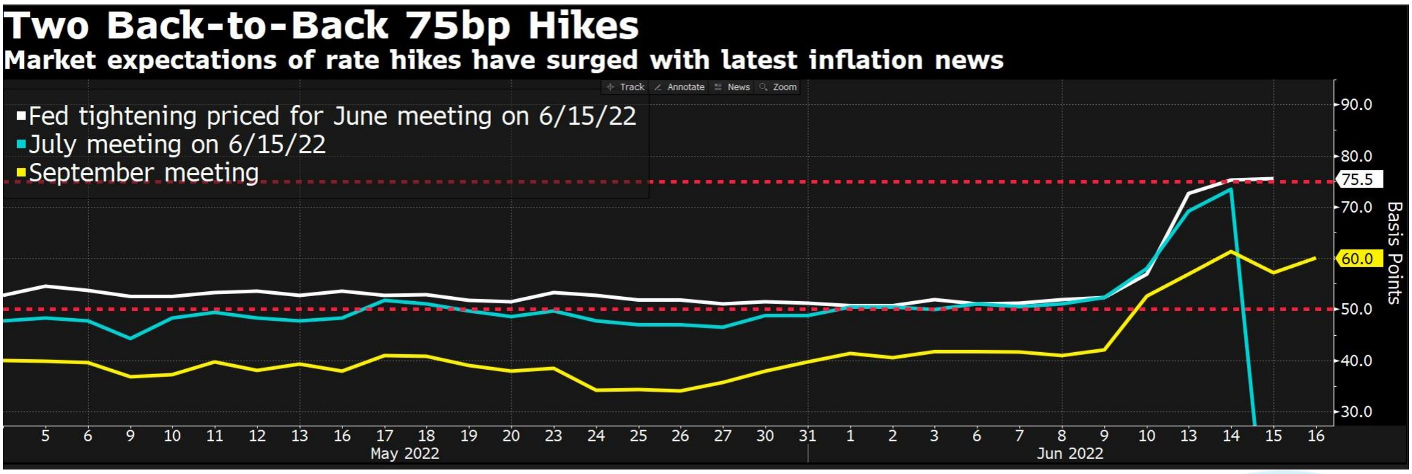
Chart of the Week



Source: Bloomberg – US Federal Reserve gets aggressive after latest inflation news

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
		- UK CPI yy		- Japan CPI

Market Performance – 17/06/2022

Global Market Indices	2022 YTD %*
FTSE 100	-2.73%
S&P 500	-22.67%
STOXX 600	-13.38%
Nikkei 225	-8.20%
Hang Seng	-9.64%
Fixed Income	**Yield %**
UK 10 Yr Gilt	2.52%
US 10 Yr Treasury	3.30%
Commodities	**2022 YTD %**
Gold	0.72%
Currency	
GBP/USD	1.23 (17/06/2022)
GBP/EUR	1.17 (17/06/2022)

Source: FE Analytics/ Bloomberg.com **Total Return/Local currency*