



Weekly Investment Update

15th July 2022

News Headlines

US inflation surprise – Annual consumer prices in the US surprised economists, jumping by 9.1% in June, which is the largest year-on-year increase since 1981. This data followed stronger than expected jobs growth in June, suggesting that the US Federal Reserve’s aggressive monetary policy stance had made little progress in cooling demand and bringing inflation down. Recent forecasts were expecting the central bank to raise interest rates by 0.75% in July, however, following the hot inflation data markets are predicting that there will be a full 1.00% increase at the next meeting.

Conservative Party leadership – Remaining candidates took one step closer to becoming Britain’s next prime minister this week. Only five candidates now remain and are due to be whittled down to two by the end of next week. Former Chancellor, Rishi Sunak, won the round of voting by MPs, with Penny Mordaunt and Liz Truss coming in second and third. Once two candidates remain, around 160,000 Conservative Party members will decide which candidate they want to become the next party leader, with the announcement to be made on 5th September.

Euro-dollar parity – The Euro fell to parity with the US dollar this week for the first time in 20 years. Deepening fears of a global economic slowdown have pushed investors to flee to safe haven assets, a category that the dollar fits in to. Investors piling into the dollar has seen the currency rise dramatically against all other major currencies, with the DXY index (USD versus a basket of major currencies) seeing highs not seen since 2002. The euro’s fall has been perpetuated by a weak economy, Europe’s current energy crisis due to Russia’s invasion of Ukraine, and the European central bank’s lagging interest rate.

Market Summary

Global Equities – Equities declined throughout the week, with the MSCI World Index posting a loss of -2.64% as at Thursday’s close. Losses stemmed from risk-off sentiment due to fears that upcoming economic and corporate data releases may force central banks to act more aggressively. The Bank of America lowered its 2022 target for the S&P 500 by 900 points to 3,600, stating that they expect a recession this year and believe that the Federal Reserve will “pivot” their monetary policy in 2023. Slight relief in equity markets came on Thursday as Federal Reserve committee members hinted that a 0.75% interest rate rise in July would be preferable, even after the latest inflation data.

Commodities – Continuing fears of an impending global recession have gripped commodity markets and slashed demand forecasts, pushing prices down. Both oil contracts (Brent Crude & WTI) fell sharply throughout the week, both dropping below \$95 per barrel for the first time since Russia invaded Ukraine.

Looking at precious metals, gold drifted lower, settling around \$1,700 per ounce. Base metals fell to new lows for the year on Friday after China’s Q2 growth data fell short of expectations, prompting a revision of demand forecasts for the rest of the year.

Fixed Income – After the hotter than expected inflation data in the US, short dated (2-year) Treasury yields climbed higher, further inverting with the longer dated (10-year) yields. The steepening of the yield curve left the 2s10s curve at its most inverted since 2000.

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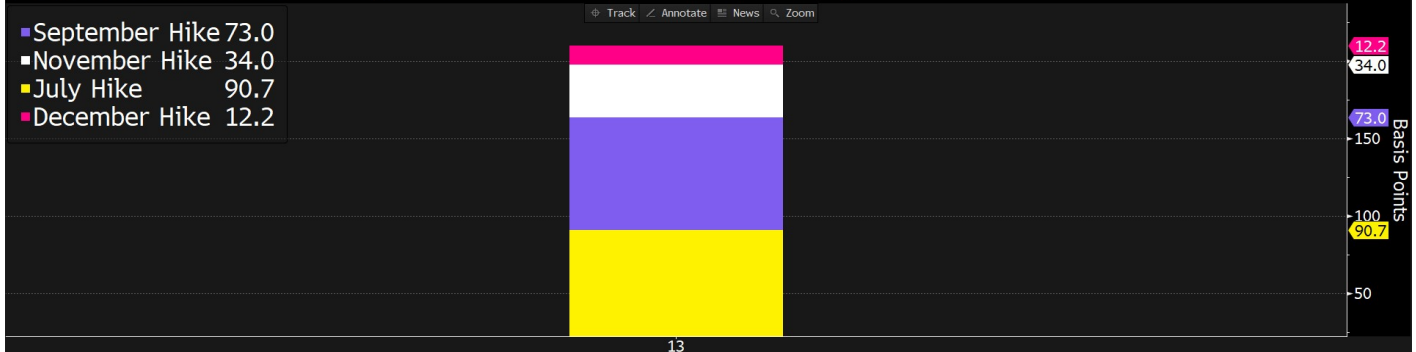


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Chart of the Week

Hikes Priced Over Upcoming Fed Meetings

Market sees nearly 100BPS hike for July



Source: Bloomberg – Markets now predict a full percentage point interest rate rise in the Federal Reserve's July meeting

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- EU inflation yy	- UK CPI yy	- ECB rate announcement	- Japan CPI - UK retail sales

Market Performance – 15/07/2022

Global Market Indices	2022 YTD %*
FTSE 100	-2.68%
S&P 500	-20.01%
STOXX 600	-14.64%
Nikkei 225	-8.53%
Hang Seng	-9.18%
Fixed Income	Yield %
UK 10 Yr Gilt	2.10%
US 10 Yr Treasury	2.96%
Commodities	2022 YTD %
Gold	-6.97%
Currency	
GBP/USD	1.18 (15/07/2022)
GBP/EUR	1.18 (15/07/2022)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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