



» Weekly Investment Update

22nd July 2022

News Headlines

Central banks – The U.S. Federal Reserve is expected to go ahead with another 0.75% rate hike next week in a bid to combat inflation. With inflation in the U.S. hitting a four-decade high of 9.1% in June, there was a belief that the central bank would act more forcefully and go for a full percentage point rate hike in July, but those forecasts have eased somewhat in the last few weeks. In Europe, the European Central Bank acted aggressively, raising its interest rate for the first time in 11 years. The bank chose to hike by 0.5% in an attempt to cool rampant inflation plaguing the eurozone, stating that the increase was necessary after a surge in food and fuel costs that show no signs of easing over the next few months.

UK CPI – Consumer Price Index (CPI) inflation in the UK rose to 9.4% in June, up from 9.1% in May, hitting a 40-year high. The increase has heaped pressure on the Bank of England (BoE) to deliver an aggressive interest-rate hike next month, with the BoE's Governor, Andrew Bailey, stating that a 0.50% rate rise is on the table at the bank's next meeting. The CPI rate is predicted to rise rapidly to approximately 11% in the Autumn when the energy cap rises, which is well off the Bank's 2% inflation target.

Nord Stream Pipeline – For the past week and a half, the Nord Stream pipeline, which supplies natural gas from Russia into Germany, has been closed for routine maintenance. It appears the pipeline has re-opened, and that gas is flowing through it at pre-maintenance levels (40%), but there are growing concerns that Russia will restrict gas flow further or even cut off gas supply completely. Russian President, Vladimir Putin, is using disputes over sanctioned parts to threaten Europe, knowing that any further restrictions on gas supplies will drive up prices in Germany and beyond, causing deep economic damage and tightening already struggling household finances. To put this into context, the International Monetary Fund (IMF) have warned that almost 5% of Germany's economy is at risk over Russian gas.

Market Summary

Global Equities – Major global equity indices posted strong rallies throughout the week, with the MSCI World Index returning 3.41% as at Thursday's close. Strong corporate earnings as well as expectations that the Federal Reserve interest rate will only increase by 0.75% next week improved investor sentiment, especially sentiment around "growth" style equities. Credit Suisse's Fear Barometer (a gauge of investor sentiment derived from the options market) is just off its lowest point since 2020, suggesting that investors may be willing to buy the equity market dips, spurring strong, short-lived rallies. The US S&P 500 and NASDAQ both posted their strongest daily returns in over a month on Wednesday.

Commodities – The oil market doesn't appear to have enough spare capacity, reflected by Strategic Petroleum Reserves being at their lowest levels in 37 years. This means that despite a reduction in demand, prices could stay above \$100 a barrel, with Brent Crude and WTI up 2.95% and 3.75% respectively over the last week.

Looking at precious metals, gold prices resumed their bearish trend hovering around \$1,700 per ounce as risks to the global growth outlook remain elevated. Meanwhile, silver is currently trading at its lowest level post-pandemic.

Fixed Income – As the European Central Bank raised its interest rates more aggressively than expected, markets moved to price a more aggressive hiking cycle, bringing sovereign bond yields lower. Political turmoil in Italy saw the spread between Italian 10-year yields and German 10-year bund yields widen even further, highlighting the issues the EU face to keep the bloc on a level playing field.

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Chart of the Week

Inflation in Europe Prices rising way quicker than ECB's targets



Source: Bloomberg – Inflation across Europe is rising faster than the European Central Bank's (ECB's) targets.

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- US house price index	- Federal Reserve rate decision - Australia Inflation rate	- US GDP growth rate	- Euro GDP growth rate - Euro inflation rate

Market Performance – 22/07/2022

Global Market Indices	2022 YTD %*
FTSE 100	-1.15%
S&P 500	-15.88%
STOXX 600	-11.86%
Nikkei 225	-4.07%
Hang Seng	-9.54%
Fixed Income	Yield %
UK 10 Yr Gilt	2.00%
US 10 Yr Treasury	2.87%
Commodities	2022 YTD %
Gold	-6.31%
Currency	
GBP/USD	1.20 (22/07/2022)
GBP/EUR	1.17 (22/07/2022)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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