

» Weekly Investment Update

5th August 2022



News Headlines

Bank of England – The Bank of England chose to raise its interest rate by 0.50% to 1.75%, the biggest rate rise in 27 years. In the statement the bank's governor, Andrew Bailey, laid out a bleak forecast for the UK economy as inflation continues to hit highs not seen in decades. Officials have now predicted that inflation will hit 13.3% later this year, leading to the country facing its longest economic slump since the financial crisis of 2008, with families due to be 5% worse off by the end of next year. Prime ministerial candidate, Liz Truss, claimed on Thursday that she could avert a recession in the UK if she became prime minister. Truss promised to reverse plans by her rival, Rishi Sunak, to increase corporation tax, scrapping green levies on energy bills and a national insurance rise.

Pelosi visits Taiwan – US House Speaker, Nancy Pelosi, defied warnings from both US and Chinese officials on Tuesday, as she chose to visit Taiwan. The plane carrying Pelosi was watched by millions of people on flight tracking website, Flightradar24, as Chinese officials warned of dire consequences if this trip went ahead. While there, Pelosi pledged that the US would not abandon Taiwan, reaffirming support for the island in a joint press conference with Taiwanese leader Tsai Ing-wen. In retaliation to the meeting, China summoned the US ambassador, conducted provocative military drills and halted some trade with Taiwan.

Market Summary

Global Equities – Global equities made slight gains for the week, with the MSCI World Index returning 0.58% as at Thursday's close. Markets reversed a geopolitically led two-day slide at the start of the week to post strong rallies on Wednesday. Spurring the rally was a better-than-expected US ISM Services index reading showed strength in the economy as services hit a three-month high.

Commodities – In a meeting on Wednesday, OPEC+ agreed to increase supply of oil by 100,000 barrels a day, which has been seen as a token gesture after US President, Joe Biden, left Saudi Arabia last month confident that he had had a promise to tame high oil prices. This increase in supply is one of the smallest in OPEC's history, offering little respite from the inflationary squeeze of oil prices. Oil prices (brent Crude & WTI) did drop sharply this week however, due to rising recession fears after the Bank of England's negative global outlook. Both contracts finished down c.10% for the week.

Gold rallied back above \$1,800 per ounce, trading at one-month highs and gaining for a third-straight week. As the US dollar continues to decline, an increase in geopolitical tensions between the United States and China stoked demand for the safe haven asset.

Fixed Income – Global fixed income was little changed over the week, as the Bloomberg Global Aggregate rose slightly, up 0.15%. After the Bank of England's stark warning of imminent recession, the UK's short dated (2-year) and long dated (10-year) yields briefly inverted for the first time since 2019 as investors digested the information.

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Chart of the Week

BOE Hikes Rates Amid Record Inflation Policymakers raise rates by most since 1995



Source: Bloomberg – The Bank of England hikes rates amid record inflation

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
		<ul style="list-style-type: none"> - China CPI yy - US CPI yy - Germany CPI yy 	<ul style="list-style-type: none"> - US PPI inflation yy 	

Market Performance – 05/08/2022

Global Market Indices	2022 YTD %*
FTSE 100	1.44%
S&P 500	-12.63%
STOXX 600	-8.75%
Nikkei 225	-3.61%
Hang Seng	-11.29%
Fixed Income	Yield %
UK 10 Yr Gilt	1.90%
US 10 Yr Treasury	2.67%
Commodities	2022 YTD %
Gold	-2.36%
Currency	
GBP/USD	1.22 (05/08/2022)
GBP/EUR	1.19 (05/08/2022)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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