

Weekly Investment Update

26th August 2022



News Headlines

UK inflation surprise – Investment bank, Citigroup, have forecast that UK inflation could hit 18% in 2023, a far cry from recent estimates of 11%. The extreme rise, according to Citibank, would be as a consequence of rapidly rising energy prices, with analysts expecting the energy price cap to rise to £6,000 in April. This prediction assumes, however, that the policymakers would not intervene to protect consumers. On Friday, UK energy regulator Ofgem announced an increase of 80% in the price cap from October, leaving a typical household with an average energy bill of £3,549 a year.

China slowdown – China has announced another substantial stimulus package in a bid to invigorate its waning economy, unsettled by ongoing Covid-19 lockdowns, a long-running property crisis, and an energy crisis sparked by severe droughts and heat waves. The 1 trillion-yuan package includes funds for financing new infrastructure projects, specific private business sectors, and subsidies for agriculture related businesses. China's growth target remains at 5.5% for the year, however, economists polled by Bloomberg are projecting growth of less than 4% this year stating that the new measures won't be enough to lift overall growth.

Jackson Hole – Markets are anxiously awaiting the speech to be made by Federal Reserve Chair, Jerome Powell, at the annual central banking symposium in Jackson Hole this weekend. Federal Reserve officials have been signalling hawkish tones in the run up to the meeting, stating that interest rates need to keep going up to fight inflation. The tone set by Mr Powell has the potential to push markets either way. A more hawkish tone could see markets become more vulnerable, whereas a dovish tone could allow markets to breathe a sigh of relief for the time being.

Market Summary

Global Equities – Equities declined slightly throughout the week, with the MSCI World Index posting a loss of -0.69% as at Thursday's close. After dropping sharply at the start of the week, US equities staged a comeback on Thursday, with the S&P 500 seeing its largest gain in nearly two weeks after sentiment was boosted by hopes that Federal Reserve Chair, Jerome Powell, may not be as hawkish as first feared in his Jackson hole speech, along with better-than-expected economic releases. Chinese equities listed in Hong Kong in particular saw strong rallies towards the end of the week after hopes increased of an audit deal between the US and China, which would benefit US listed firms facing scrutiny from the US over potential conflict of interest with China.

Commodities – The last few weeks has seen a broad recovery in commodities, with the Bloomberg Spot Commodity index hitting a two-month high midweek.

Oil prices surged at the start of the week, with Brent Crude settling above \$100 after Saudi Arabia hinted at the idea of OPEC+ output cuts to support prices in the case of returning Iranian oil, with the prospect of a drop in US inventories. Energy prices across Europe saw fresh record highs once again as natural gas futures surged a further 10%.

Fixed Income – Fixed income declined as yields rose, as the Bloomberg Global Aggregate fell 0.6% throughout the week. UK Gilt yields hit multi-year highs, with the 10-year yield hitting its highest level since 2014. The short/long term yield curve flattened even further in the UK, leaving it deeper in inversion than at any point since 2008.

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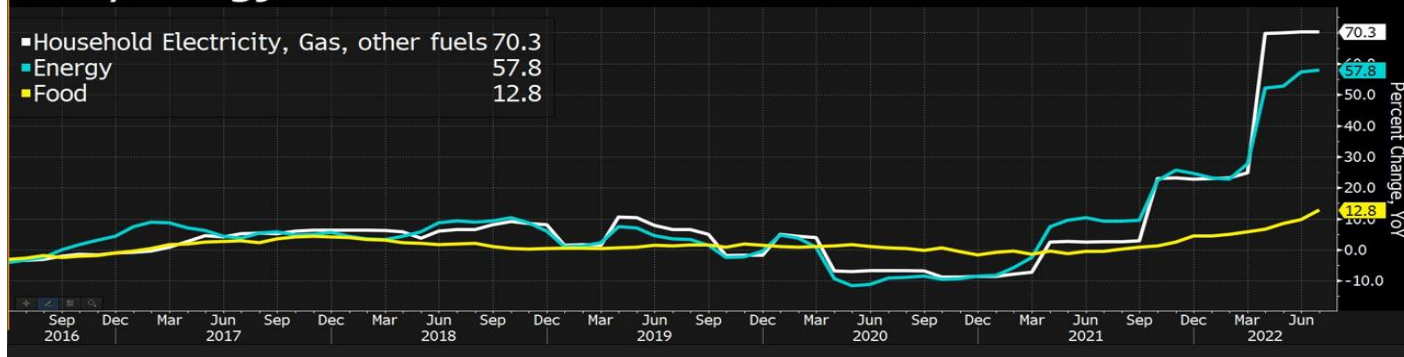
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Chart of the Week

UK Cost of Living Squeeze Food, energy inflation cause household bills to rise



Source: Bloomberg – UK households begin to feel the pinch as bills are due to rise again

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	<ul style="list-style-type: none"> - Japan unemployment rate - US consumer confidence 	<ul style="list-style-type: none"> - China manufacturing PMI - Germany unemployment rate 	<ul style="list-style-type: none"> - US manufacturing PMI 	<ul style="list-style-type: none"> - US unemployment rate

Market Performance – 26/08/2022

Global Market Indices	2022 YTD %*
FTSE 100	4.31%
S&P 500	-11.27%
STOXX 600	-8.74%
Nikkei 225	-1.09%
Hang Seng	-12.46%
Fixed Income	Yield %
UK 10 Yr Gilt	2.62%
US 10 Yr Treasury	3.02%
Commodities	2022 YTD %
Gold	-4.21%
Currency	
GBP/USD	1.18 (26/08/2022)
GBP/EUR	1.18 (26/08/2022)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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