

Weekly Investment Update

2nd September 2022



News Headlines

Eurozone Crisis – Inflation across the Eurozone surged to a record high of 9.1% in August, up from 8.9% in July. August marks the ninth consecutive month of rising inflation for the Eurozone as Russian President Vladimir Putin continues to reduce gas supplies to Europe, driving up energy prices. The ongoing war in Ukraine, and Putin's actions, have caused prices to rise at the fastest rate since records began in 1997. This has piled pressure on the European Central Bank (ECB) to continue raising interest rates at its next meeting with markets pricing in a 0.50% increase, with the possibility of 0.75%.

President Xi's Third Term – Chinese state media announced on Tuesday that the Chinese Communist party would convene for its most important gathering of the decade on the 16th October. This would set the scene for Chinese President Xi Jinping to secure leadership positions that would all but confirm him a third term as leader of the world's second largest economy. The gathering in Beijing will be closely watched globally with focus on zero-covid policies as President Xi's tough zero-covid policy has damaged the Chinese economy by significantly disrupting supply chains.

U.S. Consumer Confidence – US consumer confidence rose in August for the first time in four months on the back of cheaper gas and slower inflation - this suggests that the slowing economy stabilised towards the end of summer. The Conference Board's consumer confidence index (a measure of consumer's optimism about the economy) rose to 103.2 in August, up from 95.3 in July, beating Reuters forecast that the index would rise to 97.7. The improvement in confidence will help support spending but inflation and additional rate hikes still pose a significant threat to economic growth in the short term.

Market Summary

Global Equities – Equities declined globally, continuing their downwards trend following a hawkish tone by the Federal Reserve at the Jackson Hole conference last week, with the MSCI World index losing -3.06% throughout the week as at Thursday's close. The US S&P 500 fell back below the 4,000-point mark, losing c.5.5% since the conference, with further declines spurred by better-than-expected data releases showing strong consumer confidence and a tight labour market. In the UK, the FTSE 100 was on track for its worst week since June on Friday. Concerns of a looming recession, and uncertainty ahead of the prime ministerial election next week soured investor sentiment in the UK. Faring particularly badly were European equities. Europe's STOXX 600 index fell to a six-week low as high inflation data hurt risk appetite.

Commodities – Gold broke below \$1730 earlier in the week, even dipping below \$1700 on Thursday. One reason for the negative sentiment is the hawkish monetary policy which has pushed 2-year bond yields to the highest levels since 2007.

Oil prices opened higher on Friday, with Brent Crude opening at \$92.66 and WTI Crude opening at \$86.56 despite almost reaching summer lows over the last week. The rebound comes as nuclear talks between the US and Iran appear to have broken down.

Fixed Income – Yields on sovereign bonds rose significantly in Europe and the US. In Europe, the prospect of additional interest rate hikes due to rampant inflation contributed to many countries' government bonds suffering their worst monthly performance this century. UK gilts underperformed, whilst US Treasuries also lost ground as a member of the Federal Reserve committee stated that they did not anticipate the central bank cutting the interest rates next year.

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Chart of the Week

Fed Fails to Tighten Financial Conditions Looser than Fed's first hike in March



Source: Bloomberg – Fed fails to tighten financial conditions

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- Australia cash rate decision	- Bank of Canada rate decision - Europe GDP yy - Europe employment yy	- European Central Bank rate announcement	- China CPI yy

Market Performance – 02/09/2022

Global Market Indices	2022 YTD %*
FTSE 100	-1.95%
S&P 500	-16.37%
STOXX 600	-15.05%
Nikkei 225	-4.49%
Hang Seng	-13.56%
Fixed Income	Yield %
UK 10 Yr Gilt	2.87%
US 10 Yr Treasury	3.26%
Commodities	2022 YTD %
Gold	-7.22%
Currency	
GBP/USD	1.15 (02/09/2022)
GBP/EUR	1.16 (02/09/2022)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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