



» Weekly Investment Update

4th November 2022

News Headlines

Central bank decisions – This week we received much anticipated guidance from both the US and UK's central banks. The US Federal Reserve raised its interest rate by 0.75% for the fourth time in a row as predicted, but the central bank's Chairman, Jerome Powell, reiterated that he is prepared to push rates as high as necessary to irradiate the high inflation we're currently seeing. Powell added that "incoming data since our last meeting suggests that the ultimate level of interest rates will be higher than previously expected."

In the UK, the Bank of England (BoE) also raised interest rates by 0.75% to 3%, the largest rate increase seen in 33 years. Also, the BoE's governor, Andrew Bailey, stated in an interview in the week that the UK economy was hours away from a potential complete financial meltdown after former PM Truss' mini budget announcement, forcing him to act "quickly and "decisively" to stave off the threat to financial stability. Headwinds for the UK economy continue to pile up, as the Treasury plans to deliver its next package of spending cuts and tax increases on the 17th of November.

UK economy – The price of food in UK shops rose to the highest levels since 2005 in October, piling extra pressure on the consumer as the cost-of-living crisis continues to bite. The British Retail Consortium announced that shop-price inflation had hit a record high of 6.6% last month, much higher than 5.7% seen in September. Food prices also saw record increases, rising 11.6%.

The increasingly large interest rate rises implemented by the Bank of England are estimated to cost the economy at least half a million jobs, pushing unemployment up to around 5% even if interest rates remain steady. The economy may also shrink by 1.7% over the next 18 months, taking more than three years to recover.

Market Summary

Global Equities – Investor sentiment turned negative throughout the week after updated guidance from the Federal Reserve. Investors had hoped the central bank's rhetoric may have been more positive, but this was far from the case, as the bank's chairman reiterated a hawkish message, suggesting interest rates could rise higher than previously forecast. The MSCI World index, as a consequence, declined -3.62% throughout the week. Chinese equities outperformed, as the Hong Kong Hang Seng returned 8.57% after some volatile sessions. Gains in China came after a Communist Party newspaper in China reported that local officials were being urged not to impose overly burdensome controls to curb covid-19 infections.

Commodities – Oil prices (Brent Crude & WTI) surged due to a weaker US dollar, persisting supply risks, and a possible increase in demand from China if coronavirus rules are relaxed.

Gold remained steady versus the US dollar. Continued interest rate rises are dulling the allure of the non-yielding yellow metal.

Fixed Income – A number of recessionary indicators flashed with further severity this week after the Federal Reserve's latest guidance. In the US, the 2-year (short dated) and 10-year (long dated) yields inverted further, pushing that particular yield curve to its flattest levels since 1982 as the 2-year yield rose to a post-2007 high of 4.71%.

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Chart of the Week

UK Inflation is a Problem 3% BOE policy rate still way behind 10% CPI



Source: Bloomberg – UK inflation remains well above the Bank of England base rate

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	<ul style="list-style-type: none"> - European retail sales yy - Australia NAB business confidence 	<ul style="list-style-type: none"> - China CPI yy 	<ul style="list-style-type: none"> - US CPI yy - US initial jobless claims 	<ul style="list-style-type: none"> - Germany CPI final yy

Market Performance – 04/11/2022

Global Market Indices	2022 YTD %*
FTSE 100	0.53%
S&P 500	-21.23%
STOXX 600	-13.57%
Nikkei 225	-3.92%
Hang Seng	-32.28%
Fixed Income	Yield %
UK 10 Yr Gilt	3.49%
US 10 Yr Treasury	4.16%
Commodities	2022 YTD %
Gold	-9.93%
Currency	
GBP/USD	1.12 (04/11/2022)
GBP/EUR	1.14 (04/11/2022)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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