Weekly Investment Update

16th December 2022

News Headlines

Inflation slowing – US consumer price inflation eased more than expected in November to its lowest levels since December 2021. The year-on-year rate increase fell to 7.1% last month, lower than the 7.3% figure economists had expected. Overall CPI rose 0.1% from the previous month, less than the 0.4% increase seen on October. In the UK, inflation also dropped in November, but only slightly. Year-on-year inflation fell to 10.7%, down from the 41-year high of 11.1% in October as inflation seems to have "passed its peak". Although inflation is easing, the cost of living in the UK still remains close to a 40-year high as prices have stabilised at much higher levels, which according to the head of research at the British Chambers of commerce, will be "felt for months to come".

Central bank decisions – The US Federal Reserve, Bank of England, and European Central Bank (ECB) all announced their latest interest rate decisions this week, setting out their intentions for 2023. The Federal Reserve announced that its interest rate would increase by 0.50% after positive US inflation data allowed the bank to ease up on its aggressive policy. The Bank of England also raised rates by 0.50%, up to 3.5%, the highest level in 14 years. Finally, the ECB followed suit, raising rates by 0.50%, up to 2%. All three of the policy committees warned of further increases to come in the near future, reiterating that inflation is still too high, and rates will continue to rise until appropriate weakness is seen in their economies. While other key central banks look to be coming to the end of the hiking cycle soon, the ECB has given the impression that it has just begun, stating that interest rates are set to rise "significantly" at a steady pace through 2023.

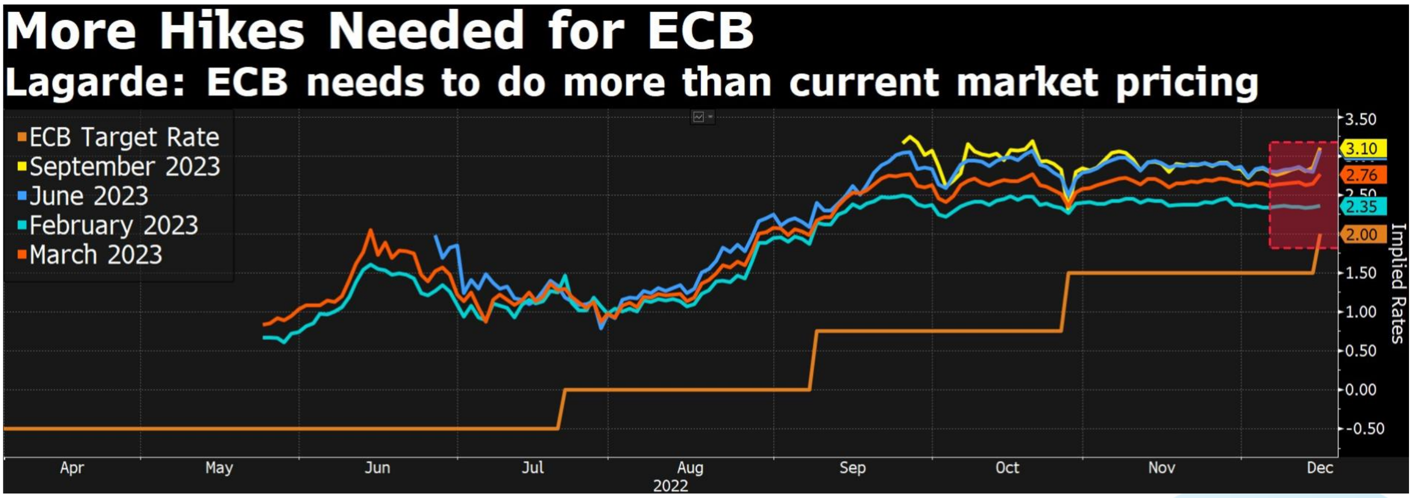
Market Summary

Global Equities – After some volatile sessions, equities lost ground, with the MSCI World index declining -0.95% for the week as at Thursday's close. Reiterated hawkish messaging from key central banks amid rising concerns about global recession risks saw equities take a nosedive after being positive at the start of the week. The US S&P 500 had its worst day in over a month on Thursday, while Europe's STOXX 600 index had its worst day since May as the ECB laid out its intentions going forward pointing to further aggressive interest rate rises, plans for quantitative tightening, and significantly higher inflation forecasts for Europe.

Commodities – Commodity prices rose over the week, with the Bloomberg Commodity Spot index returning 0.80%. Notably, oil prices (Brent crude & WTI) found support this week, shrugging off concerns of recession after the International Energy Agency projected that Chinese oil demand would recover in 2023 after contracting this year as Covid restrictions ease. Both oil contracts finished up c.4% for the week as at Thursday's close.

Fixed Income – Global bonds made slight gains throughout the week as the Bloomberg Global Aggregate index returned 0.30%. US Treasuries strongly outperformed their UK and European counterparts after the ECB's comparatively aggressive forward guidance on the path of interest rates. Sovereign bonds in Europe sold off significantly after the guidance was released and continue to decline at the time of writing.

Chart of the Week



Source: Bloomberg – More aggressive interest rate hikes required for the ECB in 2023

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- US housing starts mm	- US consumer confidence	- Japan CPI - US jobless claims	- US durable goods orders - US new home sales mm

Market Performance – 16/12/2022

Global Market Indices	2022 YTD %*
FTSE 100	2.45%
S&P 500	-17.46%
STOXX 600	-10.04%
Nikkei 225	-2.30%
Hang Seng	-13.99%
Fixed Income	**Yield %**
UK 10 Yr Gilt	3.29%
US 10 Yr Treasury	3.46%
Commodities	**2022 YTD %**
Gold	-2.56%
Currency	
GBP/USD	1.22 (16/12/2022)
GBP/EUR	1.15 (16/12/2022)

Source: FE Analytics/ Bloomberg.com **Total Return/Local currency*