ascencia
Investment Management

Weekly Investment Update

3rd February 2023

News Headlines

Central bank decisions – Key central banks announced their latest interest rate decisions this week, laying out their plans for the road ahead. The US Federal Reserve raised its interest rate by 0.25%, up to 4.50%-4.75%, in-line with market expectations, returning to a more normal pace of policy tightening. The latest increase leaves the interest rate at its highest level in 15 years, with the Federal Open Market committee noting that it still anticipates that ongoing increases in the target range will be appropriate to return to the inflation target of 2% over time. Some subtle changes were made to the Committee's statement this time around, and for the first time, it acknowledged that "inflation has eased somewhat", although it still saw inflation as elevated.

The Bank of England and the European Central Bank both raised interest rates by another 0.50%. The ECB's hike takes the deposit rate up to a post 2008 high of 2.5%, while the committee further committed itself to another 0.50% rate increase in March's meeting. There were some dovish signals from the bank's President, Christine Lagarde, as she stated that inflation risks were now "more balanced" and the recent fall in energy prices may slow inflation more rapidly than expected. The BoE's hike took the Bank Rate up to 4%, with the Monetary Policy Committee suggesting that smaller rate increases and an eventual end to the current hiking cycle may end in the coming meetings.

IMF downgrade – The International Monetary Fund (IMF) released its latest economic forecasts for the global economy. The fund stated that the global economy was doing better than expected, with inflation peaking and investment picking up. The UK, however, is predicted to fare far worse than any other country in the developed world in 2023, including Russia, facing a contraction of 0.6%.

Market Summary

Global Equities – Sentiment towards equities, and especially growth-related equities, continued to strengthen after the latest round of central bank announcements. Suggestions that rate hiking cycles are potentially coming to an end as well as slowing inflation in major economies helped spur the rallies, as the MSCI World Index returned 2.24% for the week as at Thursday's close. In the US, the S&P 500 touched 5-month highs, and the NASDAQ is almost at the point of entering a bull market. Equities in Europe also saw strong gains, as the STOXX 600 index hit a nine-month high.

Commodities – Commodity prices declined in general, with the Bloomberg Commodity Index falling -1.97% over the week as at Thursday's close. Both Brent Crude and WTI oil slumped, on track for a second week of losses as the market awaits further signs of fuel demand recovery in China.

Gold prices hit a 9-month high mid-week but pulled back sharply to finish the week flat as the US dollar made a comeback after markets feared that resilience in the jobs market could keep price pressures higher for longer.

Fixed Income – Investors hopeful that central banks were nearing the end of their rate increase cycles saw sovereign bond yields decline, while in Europe we saw one of the biggest rallies in sovereign bonds in a decade. Investor appetite pushed the Bloomberg Global Aggregate Index rise 1.31% throughout the week as at Thursday's close.

Address:
Frenkel House, 15 Carolina Way, Salford, Manchester, M50 2ZY

Enquiries:
0161 886 8000
enquiries@ascenciaim.co.uk

Web:
www.ascenciaim.co.uk

Chart of the Week

Source: Bloomberg – Markets predicting an end to central bank hiking cycles

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
- Europe retail sales yy - Germany CPI yy	- Australia RBA cash rate decision		- US jobless claims	- China CPI yy

Market Performance – 03/02/2023

Global Market Indices	2023 YTD %*
FTSE 100	5.00%
S&P 500	8.98%
STOXX 600	8.18%
Nikkei 225	5.02%
Hang Seng	11.01%
Fixed Income	**Yield %**
UK 10 Yr Gilt	3.02%
US 10 Yr Treasury	3.39%
Commodities	**2023 YTD %**
Gold	5.14%
Currency	
GBP/USD	1.22 (03/02/2023)
GBP/EUR	1.12 (03/02/2023)

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