ascencia
Investment Management

Weekly Investment Update

5th May 2023

News Headlines

Central Bank Rate Decisions – The US Federal Reserve (Fed) announced this week a 0.25% interest rate increase, in line with market expectations, bringing the federal funds rate to a target range of 5.00% - 5.25%. Federal Reserve Chair, Jerome Powell, stated that this could be the central bank’s last hike but emphasised the potential for further future rate hikes if inflation remains stubborn. Furthermore, Powell pushed back strongly against expectations within the market that there will be rate cuts towards the end of the year.

The European Central Bank (ECB) announced this week an interest rate increase of 0.25%, taking the current interest rate to 3.25%. ECB President, Christine Lagarde, confirmed that significant corporate profit margins and recent wage deals suggest that financial conditions are still not sufficiently tight. Lagarde made it clear that future rate hikes would be coming, commenting that “we are not pausing – that is very clear”. In her written statements, more than one future rate hike was implied. However, markets are doubtful that the ECB can diverge from the monetary policies of the US Federal Reserve.

Takeover of First Republic – This week witnessed the conclusion of the second largest bank failure in US history as banking giant JPMorgan purchased failing bank First Republic at a government auction. We have now experienced three of the biggest US bank failures this century in the past couple of months. This has reignited concerns about regulation within the banking sector, prompting questions as to whether this could be the beginning of the banking crisis and not the end.

Market Summary

Global Equities – Major world indices suffered losses this week on the back of negative global economic outlook and central bank decisions. Hints that there will be no monetary bail out in the event of a recession, combined with default fears saw the S&P 500 Index down -c.2.60% for the week, as of Thursday’s close. Banking sector fears mixed with possible future ECB rate hikes caused the STOXX 600 Index to end the week down -c.1.20%, as of Thursday’s close.

Commodities – Negative economic outlook caused oil prices to fall dramatically this week, with WTI and Brent falling -c.9% and -c.8% to $69.15 and $74.13 per barrel respectively, as of Thursday’s close. This sell-off has dampened expectations that a rebound in Chinese demand would see an imminent bull run in the oil market.

Elevated economic uncertainty has pushed gold prices higher, with the possibility of the Fed pausing interest rate hikes at their next meeting triggering prices to surge to $2,080 an ounce.

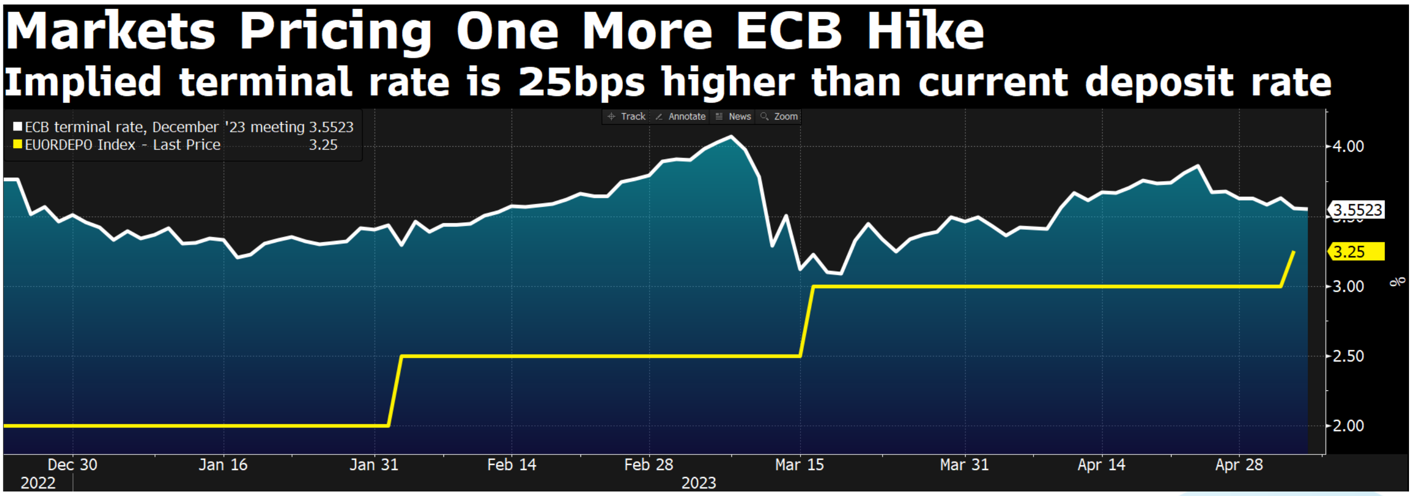
Fixed Income – It was a volatile week for government bond yields. Initially, US Treasury yields rose over default fears. However, suggestions that there will be a pause in the Fed’s rate hikes witnessed a significant drop in the 2-year and 10-year Treasury yields. It was a similar story for global bonds, with the Bloomberg Global Aggregate Index finishing positively c.0.43% as of 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 are pricing in one more 25bps hike from the European Central Bank

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
		- US CPI yy - Germany CPI yy	- UK Bank of England rate decision - China CPI yy	

Market Performance – 05/05/2023

Global Market Indices	**2023 YTD %***
FTSE 100	4.82%
S&P 500	6.34%
STOXX 600	10.08%
Nikkei 225	12.84%
Hang Seng	1.27%
Fixed Income	**Yield %**
UK 10 Yr Gilt	3.71%
US 10 Yr Treasury	3.38%
Commodities	**2023 YTD %**
Gold	12.11%
Currency	
GBP/USD	1.26 (05/05/2023)
GBP/EUR	1.14 (05/05/2023)

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