

» Weekly Investment Update

26th May 2023



News Headlines

UK Inflation – UK inflation dropped to 8.7% in April, higher than expected. The UK now has the joint highest inflation among G7 countries, piling pressure onto the Bank of England (BoE) to continue rate hikes at their next meeting in June. A drop in gas and electricity prices contributed significantly to the drop in inflation, however food inflation still remains high at 19.1%. This will impact family budgets the most as earnings continue to lag behind rising prices. Economists predict further easing of inflation, but risks persist as the war in Ukraine continues.

IMF Forecast – The International Monetary Fund (IMF) has revised its UK growth forecast, acknowledging its previous mistake in predicting a recession. The IMF now expects the UK economy to grow by 0.4%, a positive shift from the previous projection of a 0.3% contraction. This improvement is attributed to increased business confidence, higher government spending, and surprising demand resilience. However, the IMF cautions that the ongoing cost of living crisis will continue to impact the economy, indicating that interest rates may need to remain elevated for longer to address inflation.

US Downgrade Warning – Top credit rating agency Fitch has placed its highest credit rating 'AAA' for the US onto their watchlist as the debt ceiling stalemate continues, pushing the US further towards a potential default. Markets are widely expecting that a default can be avoided with House Speaker, Kevin McCarthy and US President, Joe Biden, both admitting that a deal can be done. However, markets remain cautious as the 1st June deadline quickly approaches.

Market Summary

Global Equities – The ongoing debt ceiling crisis has soured market sentiment, causing major market indices to finish negative for the week, with the FTSE 100, S&P 500 and STOXX 600 all finishing down -c.2.36%, -c.0.95% and -c.2.58% respectively, as of Thursday's close. However, strong earnings reports from semiconductor giant Nvidia has helped lift the technology heavy NASDAQ Composite Index out of negative territory to end the week up c.0.98%, as of Thursday's close.

Commodities – The prospect of further OPEC+ oil production cuts caused oil prices to finish positively for the week. Brent Crude and WTI Crude oil finished the week up 0.90% and 0.22%, reaching \$76.09 and \$71.89 per barrel, as of Thursday's close.

Minutes released this week supported market expectations that the Federal Reserve will pause rate hikes at their next meeting in June. This combined with market uncertainty has pushed gold prices down -c.-1.80% for the week, coming in at \$1,941.70 per ounce as of Thursday's close. This extended over to global commodities with the Bloomberg Commodity Index finishing the week negatively -c.1.76%, as of Thursday's close.

Fixed Income – Disappointing UK inflation data has seen Gilt bond prices fall, as investors price in future rate hikes from the BoE. It was a similar story in the US, as default fears and negative economic outlook caused Treasury prices to fall.

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Chart of the Week

Markets Still Pricing For Fed Rate Cuts Close to 3 cuts priced in from June to December



Source: Bloomberg – Markets are still pricing in Fed rate cuts

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- Japan unemployment rate	- Germany unemployment - Germany CPI yy	- Eurozone inflation	

Market Performance – 26/05/2023

Global Market Indices	2023 YTD %*
FTSE 100	3.39%
S&P 500	8.85%
STOXX 600	9.79%
Nikkei 225	19.27%
Hang Seng	-4.36%
Fixed Income	Yield %
UK 10 Yr Gilt	4.37%
US 10 Yr Treasury	3.82%
Commodities	2023 YTD %
Gold	6.43%
Currency	
GBP/USD	1.23 (26/05/2023)
GBP/EUR	1.15 (26/05/2023)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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