



Weekly Investment Update

7th July 2023

News Headlines

UK interest rate – Banking giant JP Morgan has said that it is possible that the interest rate in the UK could reach 7% “under some scenarios”, triggering a hard landing for the economy in an effort to get high inflation back under control. However, the bank believes it is more likely to peak at a more moderate 5.75% by November.

Federal Reserve minutes – Minutes from the US Federal Reserve’s most recent monetary policy meeting revealed an intent to increase interest rates further, with the majority of committee members expecting that it would eventually need to pursue its quantitative tightening policy again, but at a slower pace going forward. The minutes also showed that the bank’s own economists are not sure whether the US economy will suffer a recession or not, given the continued strength in the labour market and resilience of consumer spending.

US data – Further confirming the strength in the labour market, an ADP (Automatic Data Processing) jobs report out of the US stated that 497,000 jobs were created in the private sector in June, more than double the amount that economists had expected. All eyes will be on June’s inflation data out next Wednesday which will likely shape the path of the Federal Reserve’s interest rate path.

Market Summary

Global Equities – Global equities lost ground this week as sentiment soured, pushed lower by hawkish minutes from the Federal Reserve and strong jobs data in the US. Equities in the US held up relatively well, as the S&P 500 index declined -0.85% over the week as at Thursday’s close after posting its biggest daily loss since May. The UK (FTSE 100) and Europe (STOXX 600) were hit particularly hard after the release of the US jobs data, falling -3.32% and -3.14% respectively over the week. European shares hit their lowest levels since March, while the FTSE 100 touched a more than three-month low. Most Asian equity indices followed suit, however, on a positive note, Indian equities outperformed, with the benchmark Nifty 50 and BSE Sensex 30 indices hitting a series of consecutive record highs throughout the week.

Commodities – Commodity prices in general remained flat for the week. Oil prices (Brent Crude & WTI) both gained after inventories in the US fell more than expected due to resilient demand. Gold slipped slightly, but remains above \$1,900 per ounce.

Fixed Income – After the strong jobs data out of the US, investors priced in more interest rate hikes from central banks with fewer cuts next year. This sentiment triggered substantial sell-offs in sovereign bonds and spikes in yields (yields rise when bond values fall). In the US, 2-year Treasury yields (short duration) surged past 5%, hitting levels not seen since 2008, after the 2-year/10-year yield inversion (predictor of recession) hit its deepest level in 42 years at the start of the week. European and UK sovereign bonds also declined, with 10-year yields in Italy and Germany at their highest levels since March, while in the UK, yields on 10-year gilt yields surpassed levels seen soon after the mini-budget announcement last year.

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Chart of the Week

Powell vs Markets Bets on hikes this year increase, cut unlikely



Source: Bloomberg – Investors now expect more interest rate hikes this year, with fewer cuts in 2024

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
- China CPI yy	- Germany CPI yy	- US CPI yy - Bank of Canada rate decision	- US PPI inflation yy	

Market Performance – 07/07/2023

Global Market Indices	2023 YTD %*
FTSE 100	-0.32%
S&P 500	15.89%
STOXX 600	8.00%
Nikkei 225	27.04%
Hang Seng	-3.87%
Fixed Income	Yield %
UK 10 Yr Gilt	4.52%
US 10 Yr Treasury	4.03%
Commodities	2023 YTD %
Gold	4.65%
Currency	
GBP/USD	1.27 (07/07/2023)
GBP/EUR	1.17 (07/07/2023)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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