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Investment Management

Weekly Investment Update

28th July 2023

News Headlines

Central bank decisions – In the US, the Federal Reserve chose to increase its interest rate by 0.25% on Wednesday to the highest levels seen in 22 years. The decision lifted the bank's benchmark rate to a range of 5.25%-5.5%, marking it the eleventh increase since early 2022. The bank's Chair, Jerome Powell, offered few clues as to the future path of interest rates, but did reiterate that the committee will decide meeting by meeting, and will do whatever the latest data warrants. The European Central Bank also decided to raise its interest rate by 0.25%, the ninth consecutive increase, taking the main rate back to its highest level ever of 4.25%. The Bank of Japan surprised investors by making its yield curve control policy more flexible and loosening its defence of a long-term interest rate cap, seen as a prelude to a move away from its ultra-loose monetary policy.

US GDP – The US economy continues to show strength. The economy grew faster than anticipated in the second quarter, underpinned by labour market resilience, consumer spending, and business investment. Gross Domestic Product (GDP) increased at an annualised rate of 2.4% in the second quarter, beating economists' estimates of a 1.8% rise. Economists have long been predicting a downturn, but as inflation continues to retreat and labour markets remain strong, some now believe the US economy could experience a soft landing.

Market Summary

Global Equities – Global equities posted moderate gains, with the MSCI World index returning 0.21% for the week as at Thursday's close. In the US, the S&P 500 rallied to its highest levels in 15 months on Tuesday, while the Dow Jones Industrial Average index recorded 12 consecutive daily gains for the first time since 2017. Equities in Asia performed best amongst peers after investors bet that China's monetary policy would ease in the near future after a meeting of China's Politburo showed an increased focus on "new difficulties and challenges" facing China's economy.

Commodities – In general, commodity prices rose, with the Bloomberg Commodity index returning 0.69% for the week as at Thursday's close. Oil prices (Brent Crude & WTI) are on track for another weekly gain. Expectations that the US Federal Reserve would end its interest rate hiking programme soon, as well as production cuts, pushed oil higher. Industrial metal, copper, rose over the week, boosted by the diminished prospect of a harsh US recession and speculation of stimulus in China.

Fixed Income – Major moves in financial markets were driven by the Bank of Japan loosening its grip on bond yields. The bank's decision saw Japan's 10-year bond yield surge up to its highest level since 2014. Bonds in the US suffered losses after speculation that higher yields in Japan may lead to investors moving cash out of the US, and over to Japan. Japanese investors are currently the biggest foreign holders of US government debt.

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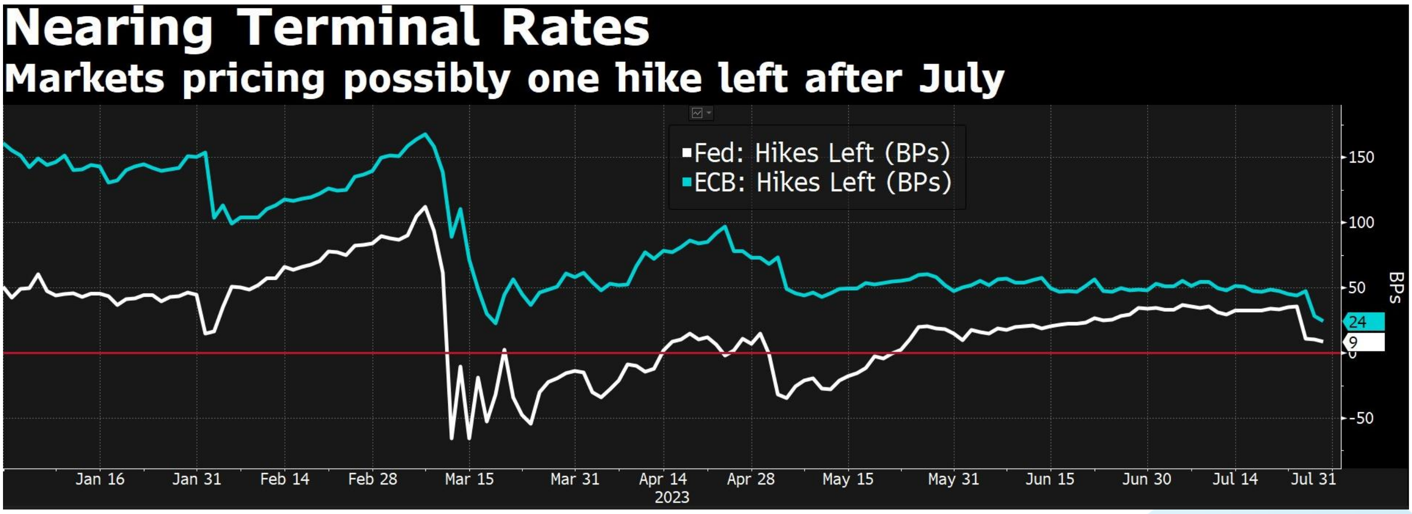
Chart of the Week



Source: Bloomberg – Markets are pricing in that the Fed and ECB are nearing terminal rates

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
- Eurozone inflation yy	- Japan unemployment rate - Germany unemployment rate	- US ADP employment report	- UK BoE rate decision	- Eurozone retail sales

Market Performance – 28/07/2023

Global Market Indices	2023 YTD %*
FTSE 100	5.44%
S&P 500	19.27%
STOXX 600	14.01%
Nikkei 225	27.50%
Hang Seng	1.94%
Fixed Income	**Yield %**
UK 10 Yr Gilt	4.37%
US 10 Yr Treasury	4.01%
Commodities	**2023 YTD %**
Gold	6.74%
Currency	
GBP/USD	1.28 (28/07/2023)
GBP/EUR	1.17 (28/07/2023)

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