

Weekly Market Update

10 July 2023

Signs that the US central bank, the Federal Reserve, would likely continue rising interest rates impacted markets globally. In Japan, investors lock in profits from a stellar year for Japanese equities, whilst data out of Europe and China points to economic weakness. UK house prices decline as mortgage rates soar.



Market Monitor (%): How did major stock markets perform last week?



Market Update:



UK

News this week hit that UK house prices fell sharply by 2.6% year on year as mortgage rates rise rapidly. This marks the largest decline in house prices since 2011. Mortgage rates have been rising rapidly, with the average 5-year fixed mortgage topping 6%, and investors are expecting interest rates to rise further as inflation remains stubbornly high. Supermarket chains have shared that there are signs that food inflation may be slowing, but some businesses expect inflation to remain high for the remainder of the year in response to workers' demands for higher wages.



US

The main factor weighing on investor sentiment during the week was the release of the minutes from the last time the US central bank, the Federal Reserve, met, and decided not to raise interest rates. Continued suggestions that further interest rate hikes were on the table and that interest rates would need to stay higher for longer dampened investors' mood. However, there are now signs that the labour market is beginning to show some cracks in the wake of more challenging business conditions. This was particularly true in the manufacturing sector.



Europe

Fears that central banks will need to continue raising interest rates and signs of China's lacklustre economic activity weighed heavily on markets. The German economy continues to show signs of weakness with industrial production, factory orders and exports all pointing to economic weakness in the period between April to June. On the flip side, price pressures appear to be easing though, retail sales fell for the eighth consecutive month. Nonetheless, the European Central Bank continues to highlight the need for interest rates to continue to rise further to tackle inflation.



Japan

Markets moved away from their recent multi-decade highs as investors locked in profits. Furthermore, sentiment was dampened by the increased anticipation of further interest rate rises in the US. The Bank of Japan's commitment to very low interest rates helped cushion the blow, as did a weaker yen which helps Japan's export-oriented businesses.



China

Economic data continues to raise concerns about the country's post-pandemic recovery. Both the services and manufacturing sectors continue to see weaker activity data than expected. Premier Li Qiang, the country's second-highest ranking official, pledged to "spare no time" in implementing a batch of targeted policies to strengthen China's post-pandemic recovery. Li stated that China is at a critical stage of economic recovery and industrial upgrading and that comprehensive, well-coordinated measures are necessary to stabilize growth and employment.



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