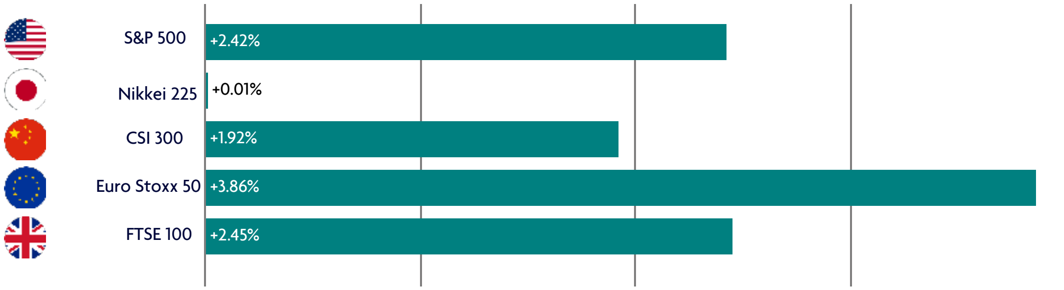
Weekly Market Update

17 July 2023

Global markets were boosted by two key things this week. On one hand, positive signs that inflation was cooling rapidly in the US boosted investor sentiment as it could mean that interest rates may soon stop rising. Across the other side of the globe, further support for the property market in China is paving the way for further economic support for China's economy where the post-pandemic recovery is quickly losing steam.

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



Market Update:

UK

The UK economy shrank 0.1% sequentially in May after expanding 0.2% in April. Economists had expected a much larger contraction during the month of May. On the employment market, mixed signals came through. On one hand, UK wages, excluding bonuses, grew at over 7% in the three months to the end of May – much higher than what the Bank of England would want to see. However, there are signs that the labour market is easing as the jobless rate moved up to 4% from 3.8% the prior month. In other news, homebuyers in the UK are pulling back from the property market at the sharpest pace in eight months due to higher borrowing costs as a result of rising interest rates.

US

Headline inflation in the US has now slowed to 3%, the slowest pace since March 2021. Core inflation (which excludes the volatile energy and food prices) also slowed to 4.8%, the slowest pace since October 2021. Whilst core inflation remains elevated, the direction of travel is suggesting that inflation is in fact coming back into control. If we look at producer prices, i.e., the costs of producing goods, that has slowed significantly which is also encouraging. Consumer confidence has recently risen to the highest level in nearly two years – with consumers saying better labour conditions and slowing inflation is giving them cause for optimism.

Europe

The encouraging inflation numbers out of the US suggest that the US central bank may be close to its peak of interest rates which was seen as positive. China's support for its property sector further added to the positivity. Despite inflation cooling in the US, minutes from the last European Central Bank meeting suggests that the European Central Bank will continue to hike rates for a while longer.

Japan

Worries that the central bank could intervene in controlling the yields on government bonds weighed on sentiment. In other news, Japan's Prime Minister Fumio Kishida met European Union leaders and agreed to boost strategic cooperation on digital and on critical raw materials and semiconductor supply chains and Brussels agreed to lift remaining restrictions on food imports from Fukushima which has been in place since the 2011 nuclear disaster.

China

Chinese officials announced an extension to two of the 16-point stimulus guidelines rolled out last November to support the ailing property sector. In corporate news, China's financial regulators imposed a fine of more than USD 1 billion on technology giants Ant Group and Tencent Holdings. The penalty was widely interpreted as an end to more than two years of probes into China's biggest internet companies and a broader tech sector crackdown that spurred investor concerns about Beijing's shifting approach to private enterprise. Inflationary data is pointing to increasing deflation risks in China's economy and more evidence that the country's post-lockdown recovery is weakening.

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