UK Week in Markets

Week ending 31 July 2022

Key News and Events

- The International Monetary Fund (IMF) slashed global growth forecasts to 3.2% in 2022 and 2.9% in 2023 from the previous estimates of 3.6% growth in each year. Global inflation forecasts were also raised by one percentage point to 8.3% and 5.7% respectively in 2022 and 2023.

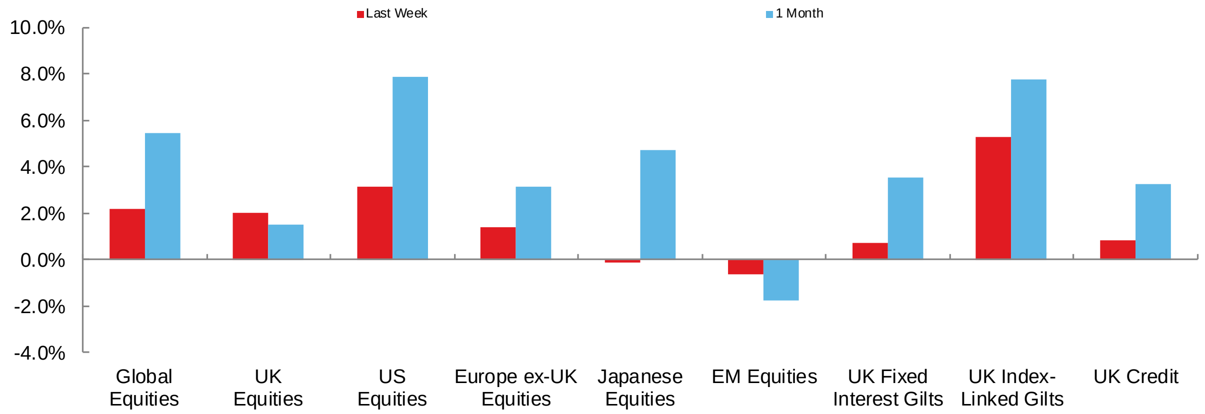
- As expected, the US Federal Reserve (Fed) increased its benchmark interest rate by 75bps for the second consecutive month to a range of 2.25-2.5%. Fed chair Jay Powell indicated that further rate hikes would be based on a "meeting-by-meeting" basis to review whether it might be appropriate to slow the pace of rate increases.

- The US economy entered a technical recession as economic growth contracted for a second consecutive quarter. Annualised gross domestic product fell by 0.9% over Q2 2022, following the 1.6% contraction in the previous quarter. A fall in business inventories was a significant drag on the US economy in the second quarter.

- The Eurozone economy expanded by 0.7% in the second quarter as a surge in tourism, due to relaxed coronavirus restrictions boosted the economy. Meanwhile, Eurozone inflation hit an all-time high of 8.9% over the year to July, as energy and food prices continued to accelerate due to supply-chain disruptions exacerbated by Russia's invasion of Ukraine.

Market Overview

Index Returns



Cumulative Return Over Last 12 Months

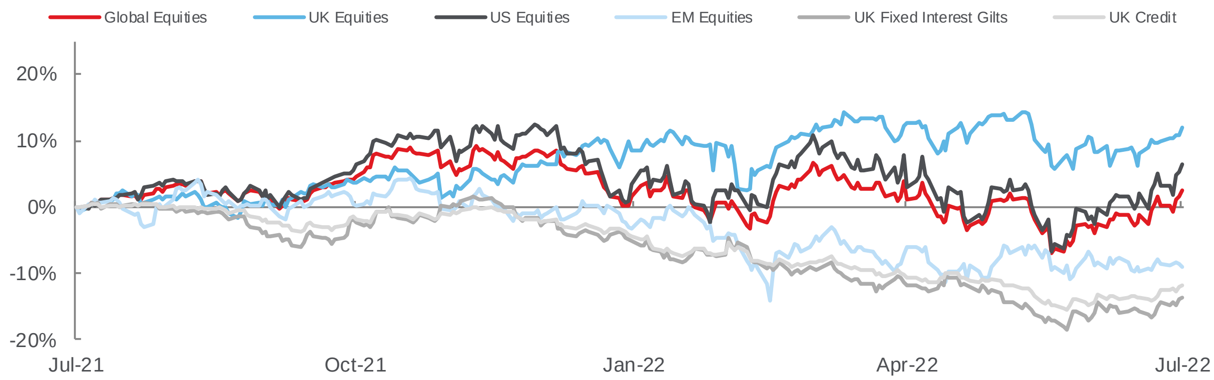


Chart Source: FactSet, FTSE, MSCI, ICE BofAML. Total return in GBP terms shown.

Market Summary

Equities

- Global equity markets rose over the week.
- The MSCI AC World Index rose by 3.1% in local currency terms and rose by 2.2% in sterling terms.
- The Energy sector was the best performer, returning 7.6% in sterling terms.
- The Health Care sector was the worst performer, returning 0.4% in sterling terms.
- US equities were the best performing market in sterling terms (+3.1%).
- Emerging Market equities were the worst performing market in sterling terms (-0.6%).

Government Bonds

- The 10-year gilt yield fell by 7bps to 1.89% and the 20-year gilt yield fell by 7bps to 2.43%.
- The 10-year US treasury yield fell by 14bps to 2.64%.
- At the 10-year maturity, the German bund yield fell by 20bps to 0.85% and the French government bond yield fell by 21bps to 1.43%.
- Portuguese government bond yields fell by 28bps to 1.89%.
- The UK Over 5-year real yield fell by 26bps to -0.92% and the UK 20-year real yield was unchanged at 1.40%.
- 20-year breakeven inflation rose by 22bps to 3.60%.

Credit

- The sterling non-gilt spread over UK gilt yields (based on the ICE index) fell by 3bps to 155bps over the week.
- Hard currency emerging market debt rose over the week, returning 2.4%. The spread of USD denominated EM debt over US treasury yields fell by 28bps to 542bps over the week.
- The US high yield bond spread over US treasury yields fell by 19bps to 477bps over the week.

Commodities

- The S&P GSCI index rose by 4.5% in USD terms over the week.
- The S&P GSCI Energy index rose by 4.2% as the price of Brent Crude oil rose by 6.6% to US$110/BBL.
- Industrial metal prices rose by 4.5% as copper prices rose by 5.8% to US$7,801/MT.
- Agricultural prices rose by 7.5% and gold prices rose by 0.9% to US$1,753/Oz.

Currencies

- Sterling strengthened by 1.1% against the US dollar and rose by 1.4% against the euro, ending the week at $1.22/£ and €1.19/£ respectively.
- The US dollar decreased by 1.8% against the Japanese yen, ending the week at ¥133.65/$.

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Our experts analyze market movements and economic conditions around the world, setting risk and return expectations for global capital markets.

The team use those expectations to help our clients set and, when it's right to do so, revise their long-term investment policies.

We believe that the medium-term (1–3 years) has been under exploited as a source of investment performance. Maintaining medium-term views that complement our long-term expectations, we help our clients to determine when to make changes to their investment strategy

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