UK Week in Markets

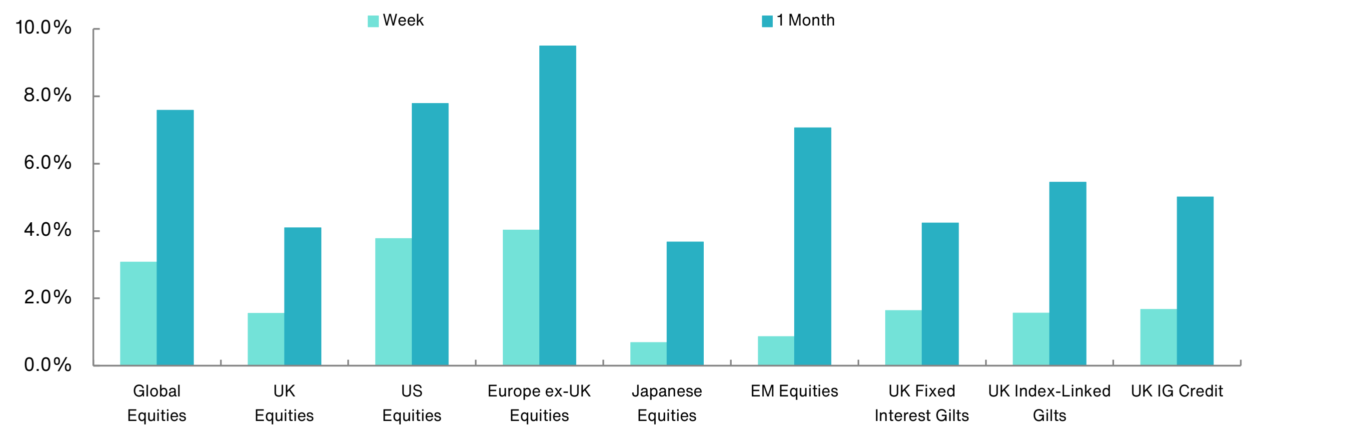
Week ending 05 February 2023

Key News and Events

- The US Federal Reserve (Fed) increased its benchmark policy rate by 25bps to a range of 4.5%-4.75%. Fed chair Jerome Powell indicated that “ongoing increases” need to be restrictive enough to bring inflation under control as he saw inflation has “eased somewhat” but it remained elevated.
- The Bank of England (BoE) raised interest rates by 50bps to 4.0%, touching its highest level in 15 years. The Monetary Policy Committee (MPC) members voted 7-2 for a 50bps rate increase. The BoE’s central forecast shows that inflation is expected to fall back sharply below BOE’s 2% target in 2024 but the MPC members agreed that the outlook remained very uncertain.
- The European Central Bank (ECB) raised its deposit rates by 50bps to 2.5%. The ECB president Christine Lagarde indicated a near-certain probability of the same rate increase in March to keep interest rates at restrictive levels enough to bring inflation to its 2% target.
- US non-farm payrolls grew by 517,000 in January, nearly double the 260,000 in December, and almost triple economist forecasts of 185,000. The unemployment rate declined from 3.5% to 3.4%, the lowest level for 53 years.

Market Overview

Index Returns



Cumulative Return Over Last 12 Months

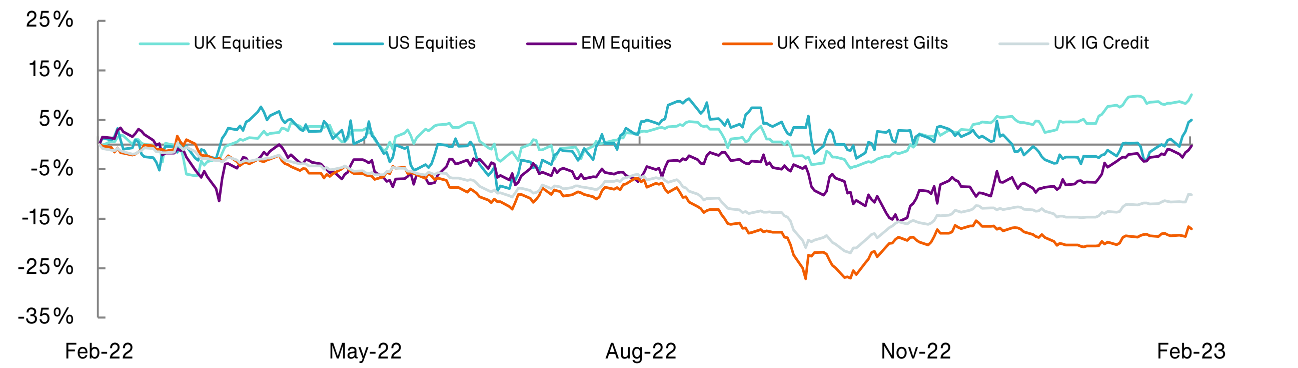


Chart Source: FactSet, FTSE, MSCI, ICE BofAML. Total return in GBP terms shown.

Market Summary

Equities

- Global equity markets rose over the week in local currency and sterling terms.
- The MSCI AC World Index rose by 1.1% in local currency terms and rose by 3.1% in sterling terms.
- The Telecommunications sector was the best performer, returning 6.3% in sterling terms.
- The Energy sector was the worst performer, returning -2.9% in sterling terms.
- European equities were the best performing market in sterling terms (+4.0%).
- Japanese equities were the worst performing market in sterling terms (+0.7%).

Government Bonds

- The 10-year gilt yield fell by 27bps to 3.08% and the 20-year gilt yield fell by 17bps to 3.60%.
- The 10-year US treasury yield rose by 1bp to 3.53%.
- At the 10-year maturity, the German bund yield fell by 4bps to 2.21% and the French government bond yield fell by 6bps to 2.66%.
- Greek government bond yields fell by 26bps to 4.00%.
- The UK Over 5-year real yield fell by 4bps to 0.22% and the UK 20-year real yield fell by 13bps to 0.16%.
- 20-year breakeven inflation fell by 3bps to 3.44%.

Credit

- The sterling non-gilt spread over UK gilt yields (based on the ICE index) fell by 3bps to 138bps.
- The US high yield bond spread over US treasury yields fell by 28bps to 395bps.
- Local currency emerging market debt rose over the week, returning 2.0%.
- The spread of USD denominated EM debt over US treasury yields fell by 13bps to 438bps.

Commodities

- The S&P GSCI index fell by 5.6% in USD terms over the week.
- The S&P GSCI Energy index fell by 9.0% as the price of Brent Crude oil fell by 7.8% to US$80/BBL.
- Industrial metal prices fell by 2.7% as copper prices fell by 3.1% to US$9,060/MT.
- Agricultural prices rose by 0.4% and gold prices fell by 2.5% to US$1,875/Oz.

Currencies

- Sterling weakened by 2.0% against the US dollar and fell by 2.2% against the euro, ending the week at $1.21/£ and €1.12/£ respectively.
- The US dollar increased by 0.8% against the Japanese yen, ending the week at ¥131.04/$.

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With over 160 years of combined experience, the team is one of the strongest in UK investment consultancy today.

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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