

UK Week in Markets

Week ending 30 April 2023

02 May 2023

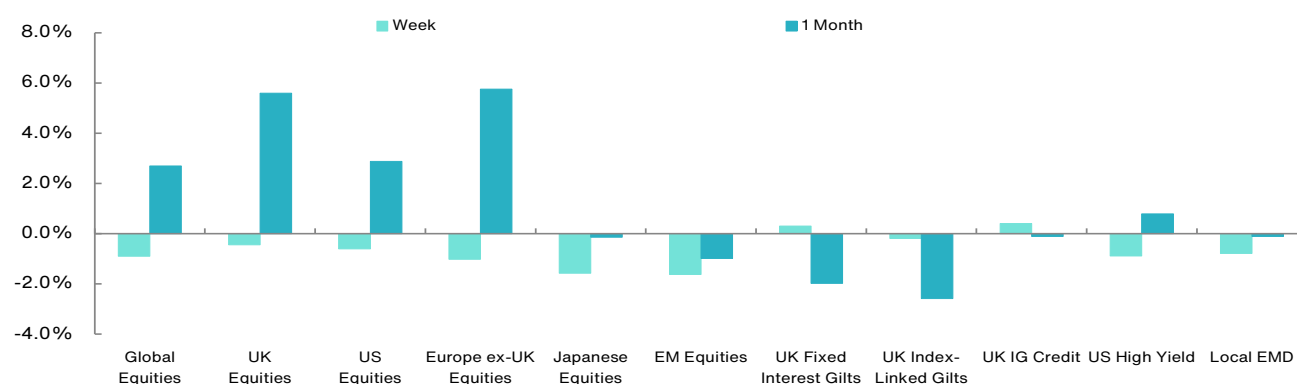
Key News and Events

- JP Morgan agreed to acquire the majority of First Republic Bank, purchasing \$173bn of loans, securities amounting to \$30bn, and \$93.5bn of deposits. The deal was announced early on Monday the 1st of May and represents the second-biggest bank failure in US history. First Republic Bank's market capitalisation was around \$25bn in February and all of its shareholders have been wiped out. Depositors of First Republic Bank have been protected and JP Morgan will pay the Federal Deposit Insurance Corporation \$10.6bn as part of the deal to minimise the cost to the institution.
- US economic growth slowed down as the economy expanded by 1.1% year-on-year in the first quarter, lower than economists' forecasts of 2.0%, and representing a significant decline from the 2.6% recorded in the previous quarter. Despite the weaker headline figure, growth was relatively robust with much of the deceleration coming from the drawdown of inventories, as the change in change of inventories flipped from positive to negative. Consumer spending continued to show resilience as the US labour market remains tight. Real disposable personal income increased 8.0%, higher than the 5.0% in the fourth quarter.
- Eurozone economic growth rebounded in the first quarter of 2023 after remaining flat in the previous quarter. GDP grew by 0.1% quarter-on-quarter but was lower than economists' forecasts of 0.2% as Germany, the region's largest economy, stagnated and offset expansions in countries including France, Italy and Spain. On an annualised basis, the eurozone economy grew by 1.3% to the end of the first quarter, lower than the 1.8% recorded in Q4 2022 and slightly lower than economists' expectations of 1.4%.
- The US Federal Reserve's (Fed) preferred measure of inflation, the core personal consumption expenditure price index (PCE), remained elevated by increasing 4.6% year-on-year in March, down from the 4.7% recorded in February, but was slightly higher than economists' expectations of 4.5%. However, median PCE is decelerating on a sequential month-on-month basis, increasing by 0.3% compared to 0.4% in February.

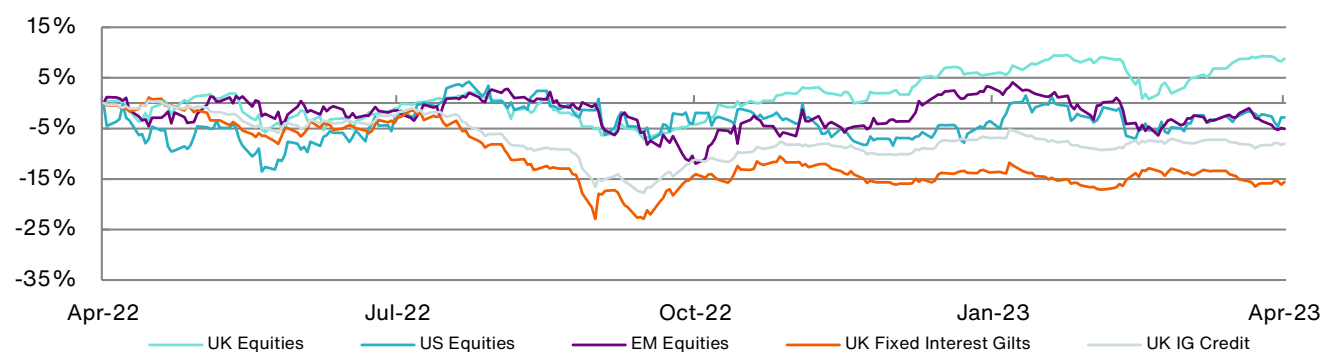
- The US House of Representatives narrowly passed a bill to raise the US debt ceiling by \$1.5tn with a tight margin of 217-215 votes, to stave off the risk of a default by the US Treasury until 2024. However, the bill is expected to fail in the US Senate, which is narrowly controlled by the Democrats, given that President Biden has already refused to negotiate and indicated that he will veto the bill unless congressional Democrats agree to raise the debt ceiling without condition.
- UK house prices, as measured by the Nationwide price index, rose in April for the first time in eight months by increasing 0.5% over the month.

Market Overview

Index Returns



Cumulative Return Over Last 12 Months



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

Market Summary

Equities

- Global equity markets rose over the week in local currency terms but fell in sterling terms.
- The MSCI AC World Index rose by 0.4% in local currency terms and fell by 0.9% in sterling terms.
- The Telecommunications sector was the best performer, returning 1.6% in sterling terms.
- The Materials sector was the worst performer, returning -2.1% in sterling terms.
- UK equities were the best performing market in sterling terms (-0.4%).
- Asia Pacific ex-Japan equities were the worst performing market in sterling terms (-2.3%).

Government Bonds

- The 10-year gilt yield fell by 4bps to 3.73% and the 20-year gilt yield fell by 1bp to 4.07%.
- The 10-year US treasury yield fell by 12bps to 3.45%.
- At the 10-year maturity, the German bund yield fell by 14bps to 2.35% and the French government bond yield fell by 14bps to 2.91%.
- Irish government bond yields fell by 19bps to 2.70%.
- The UK Over 5-year real yield fell by 1bp to 0.62% and the UK 20-year real yield rose by 4bps to 0.60%.
- UK 20-year breakeven inflation fell by 6bps to 3.47%.

Credit

- The sterling non-gilt spread over UK gilt yields (based on the ICE index) fell by 2bps to 144bps.
- The US high yield bond spread over US treasury yields rose by 4bps to 450bps.
- Hard currency emerging market debt rose over the week, returning 0.9%. The spread of USD denominated EM debt over US treasury yields fell by 7bps to 496bps.

Commodities

- The S&P GSCI index fell by 1.5% in USD terms over the week.
- The S&P GSCI Energy index fell by 1.7% as the price of Brent Crude oil fell by 2.6% to US\$80/BBL.
- Industrial metal prices fell by 1.8% as copper prices fell by 2.8% to US\$8,571/MT.
- Agricultural prices fell by 2.5% and gold prices rose by 0.5% to US\$1,983/Oz.

Currencies

- Sterling strengthened by 1.4% against the US dollar and rose by 0.8% against the euro, ending the week at \$1.26/£ and €1.14/£ respectively.
- The US dollar increased by 1.3% against the Japanese yen, ending the week at ¥136.17/\$.

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