Wealth Management
Weekly Market Update

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Market Update

Stocks rallied globally last week, as investors saw falling oil prices and possible negotiations between Russia and Ukraine as reasons for optimism. US stocks appeared unfazed by the Federal Reserve's decision to raise interest rates by 0.25%, rising +5% over the week, while 10 Treasury yields rose by 15.8 bps, as bond markets judged the Fed's intentions as more hawkish as expected. The Bank of England also hiked interest rates last week, from 0.5% to 0.75%, although this decision was seen as more dovish, since no MPC members voted for a 50 basis point hike. UK stocks rose +3.6% over the week, while gilt yields remained steady, moving only 0.6 basis points. On the commodities front, oil prices retreated by -5.3% as China announced lockdowns affecting as many as 50 million people. Meanwhile, the London Metals Exchange reopened on Wednesday, with daily limits imposed on the prices of all metals in an attempt to enforce market stability after the price of nickel doubled in a matter of minutes on 8 March. Following the resumption of trading, the price of nickel has fallen to the lower limit immediately after the start of the trading session on each day of last week, spurring more concerns over the future of the LME as a critical market for metals.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +3.6%	▲ +5.0%	▲ +6.3%	▲ +4.9%	▲ +2.4%	▲ +3.2%	▲ +0.0%	▲ +1.1%

all returns in GBP to Friday close

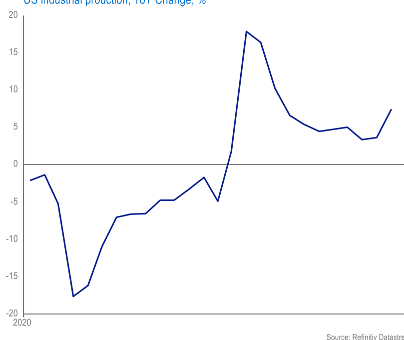
Macro News

- The invasion of Ukraine has not yet affected the US economy to the same degree as Europe's. The US manufacturing sector continued to grow strongly in February despite fears of supply chain issues, as output year-on-year increased 7.4%. Most sectors contributed positively to this robust growth, with the exception of Utilities, which is mostly attributed to the seasonal influence of cold weather, and the auto industry, where production continues to be hampered by global semiconductor chip shortages.
- On the other hand, Europe's major economies are already showing signs of weakness, the Germany ZEW survey indicated that economic sentiment fell by a record 93.6 points in March, down to -39.3. The current state of the German economy also fell month-on-month, although came in slightly above analyst estimates. Investors are becoming increasingly pessimistic on growth prospects in Europe. The war in Ukraine is expected to incite further supply chain disruptions and fuel further inflation as increasing commodity prices continue to push up input costs.

The Week Ahead

- UK inflation data for February will be released on Wednesday this week. Analysts are anticipating a 5.9% year-on-year increase in consumer prices. A surprise to the upside will dampen the UK's growth prospects and exacerbate the increasing burden on consumers.

Week in Charts



US industrial production saw a 7.4% year-on-year increase in February, indicating a continuance of the strong growth in the US manufacturing sector. However, motor vehicle output continued to drag on the headline growth figures, falling 3.5% as semiconductor chip shortages continue to plague the industry.

According to the ZEW survey, investor sentiment fell by 93.6 points in March, the largest month-on-month fall ever recorded and falling well below analyst expectations. The increased uncertainty associated with the war in Ukraine has significantly impacted sentiment regarding Germany's economic outlook and increases the risk of recession.

View From the Desk

Last week, the MPC, the Bank of England's rate-setting body, decided to raise the basic interest rate by a quarter of one per cent. At 0.75% it is still very close to the all-time low and certainly far below any sort of inflation-fighting terminal interest rate. Nevertheless, comments from the Bank were relatively dovish. Members acknowledged that inflation will rise due to external price pressures, and there's precious little they can do about it. So why would any central bank raise rates at all if inflation can't be fought off?

The theory says that higher rates should reduce inflation pressures via many mechanisms. They could reduce demand for houses and help control prices or deter consumers from leveraging up and increasing demand. They could also deter companies from leveraging up and expanding, raising prices. Ultimately, however, current inflation is external and can't be controlled. It is the confluence of post-pandemic supply chain disruptions exacerbated by shortages due to sanctions on Russia. It will rise as global companies compete for diminishing resources. It will drop when production is, somehow, restored or equilibrium otherwise reached. None of these can be controlled by the Bank of England. In an interconnected world, its decisions are much less relevant to inflation than in the decades past. At best, the institution can make an effort to keep some homes affordable. That is the real extent of its reach. At worst, its decisions may hamstring the post-pandemic economic recovery.

Mr Putin in 2019 said that the international liberal order has become obsolete. Other autocrats around the world might share his opinion. So he challenged it. The sprawling consequences of his war pose unequivocal proof that globalisation, the mechanism behind the global liberal order, is alive and kicking.

David Baker, CIO

Important information

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