Wealth Management
Weekly Market Update

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Market Update

US equities rose by +5.5% last week, breaking a string of seven consecutive weekly declines. Gains were seen in all sectors, with consumer discretionary and energy seeing the strongest rates of growth, while healthcare lagged other sectors. This cross-sector strength appeared to reflect optimism that inflation could be easing: Core PCE, the Fed's favourite inflation gauge, was reported to have declined for the second month in a row this week; other economic data was weaker as PMIs broadly softened and durable goods orders slowed. Indices in other regions followed the US, with UK and EU stocks rising by +2.7% and +3.7% respectively. The one area of weakness in equities was in emerging markets, which have been weighed down by concerns over slower growth and harsh coronavirus restrictions in China, and declined -0.3% over the previous week. Bond yields increased in the UK and Europe after hawkish comments by top officials in their respective central banks, while US bonds fared better as minutes released from the Federal Reserve's May meeting were more or less in line with expectations.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +2.7%	▲ +5.5%	▲ +3.7%	▲ +4.4%	▼ -0.3%	▲ +0.1%	▼ -1.1%	▲ +1.0%

all returns in GBP to Friday close

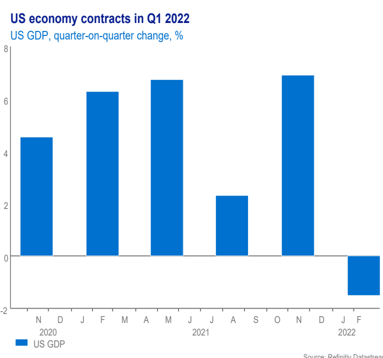
Macro News

- US GDP figures for Q1 2022 were released on Thursday, revealing a -1.5% quarter-on-quarter contraction in the real GDP the world's largest economy. This fall was associated with reductions in government spending and fluctuations in the US trade balance (exports decreased whilst imports, which contribute negatively to GDP, increased). However, consumption figures remained robust as demand for services, particularly housing, remained strong.
- On the other side of the spectrum, it appears that the sharp rise in living costs for UK residents has begun to materialise. Flash PMI results for May indicated a severe slump in both the services and manufacturing sectors. Input costs continued to accelerate and have contributed to the more pessimistic business outlook, as a greater proportion of companies anticipate the rising costs to impact their profit margins. In addition, demand for services was much weaker in May, as the UK struggles to grapple with a cost of living crisis becomes increasingly visible with each data release.

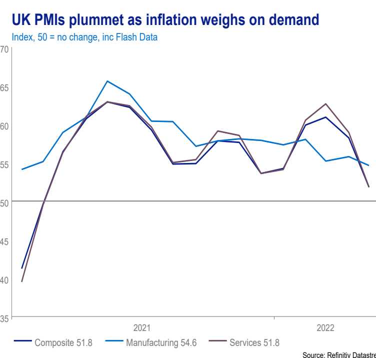
The Week Ahead

- Inflation in the Eurozone for May is expected to be released on Tuesday this week. It is anticipated that headline inflation will rise to 7.7%, although the consensus is that 'core' inflation will remain at a more moderate 3.5%.

Week in Charts



Whilst the revised figure for Q1 2022 GDP came in below previous estimates of -1.4%, there were some positives, namely the resilience of US consumer spending despite the highest levels of inflation seen for 40 years. However, inflation in Q1 was much lower than the 8.3% seen today, and the Federal Reserve still faces the monumental task of tackling inflation without materially impacting demand.



The UK flash PMI results for May are beginning to reflect the severity of the current cost of living crisis. Inflation has become increasingly broad-based and real wages have failed to keep pace, ultimately resulting in lower demand for goods and services as people look to reduce their expenditure. This will add to increasing concerns that recession may be inevitable if the Bank of England fails to rein in inflation.

View From the Desk

Last week we saw the best equity performance since November 2020, after the Fed's Minutes suggested that they will not be more aggressive than already anticipated. Ostensibly, everything in this move screams "Bear Market rally". After all, how can we call an end to the "Bear Market" when quantitative tightening, the great process to unwind some of the Fed's recent purchases, hasn't even begun.

We should not forget though that the Fed continues to be the "only game in town". And that asset managers lost the right to cry "Bear Market Rally" in 2013, when everyone was certain that quantitative easing would come to an end and markets would revert to crisis form.

However, a quick look at where the S&P 500 rebounded (at 4150 points), and where the Fed's assets are projected to be (assuming full quantitative tightening) by the next summer. In other words, markets have priced in a year's worth of quantitative tightening, but not a full reduction of assets to pre-Covid level. For that to happen, we would need to see a significantly more hawkish Fed. Last week's Minutes from the latest central bank meeting suggest that this is not the case.

Calling the latest rebound a "dead cat bounce" might be a misnomer. Dead cats don't bounce. On the one hand, what we are seeing might very well be a "Bear Market Rally". Stocks can further retrench as a result of bearishness, forecasts and algorithmic trading. But we have reached a level in the equity and the bond markets where they stop for pause.

This doesn't mean the beginning of a new cycle. Things going in the right direction is not enough. A strong theme is needed for a "New Bull Market", and that will probably not come until inflation eases and central banks perform an about-turn and stop quantitative tightening.

David Baker, CIO

Important information

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