Wealth Management
Weekly Market Update

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Market Update

The relief rally continued in global markets last week, as Jerome Powell commented that the latest 75bps rate hike by the Federal Reserve meant that the central bank is approaching 'neutral' rate. In the US, stocks rose by +2.1% despite US GDP declining for the second consecutive quarter, often an indicator of a 'technical recession'. European stocks also rose +1.6% despite increasing concerns over energy security across the region, as Russian energy giant Gazprom further reduced gas supplies to the European mainland. However, Emerging markets fared less well, falling -0.6%, whilst Japanese stocks were flat over the course of the week. Jerome Powell's remarks pushed UK equities higher, up +2.1%, and allowed the most recent period of Sterling strength versus the US Dollar to continue, with GBP/USD rising +1.4%. Bonds yields fell on the supportive tone struck by the Fed, with the US 10Y yield falling -13.9bps to 2.642%. Crude oil also finished the week higher, with prices pushing back through $100 a barrel, and gold prices also rose to $1765.22/oz.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +2.1%	▲ +2.9%	▲ +1.6%	▲ +2.2%	▼ -0.6%	▶ +0.0%	▲ +0.7%	▲ +1.4%

all returns in GBP to Friday close

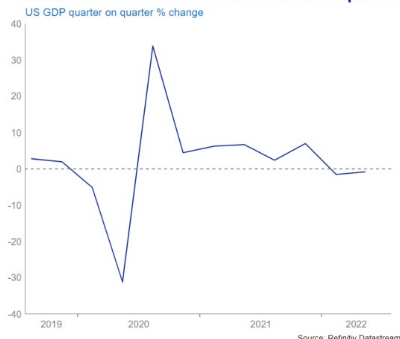
Macro News

- The US economy shrank for the second consecutive quarter this year. Gross domestic product fell by 0.9% annualised in the second quarter of 2022, having fallen 1.6% in the previous quarter. While two consecutive quarters of negative growth is a common criteria for a recession, the National Bureau of Economic Research, which is responsible for determining recessions, relies on a broader set of factors, and did not declare a recession this time.
- The Federal Reserve raised interest rates by 75 basis points again this month, doubling down on its approach to tackling soaring inflation, despite signs that the US economy is starting to slow down. The decision to raise rates to a range of 2.25% to 2.50% was unanimous this time, with Esther George, the lone dissenter in favour of a 0.50% move in June, voting for the larger move this time.
- Core PCE, the Federal Reserve's preferred measure of inflation, increased to 4.8% in June, breaking a streak of decreases. Headline PCE also increased to 6.8%.

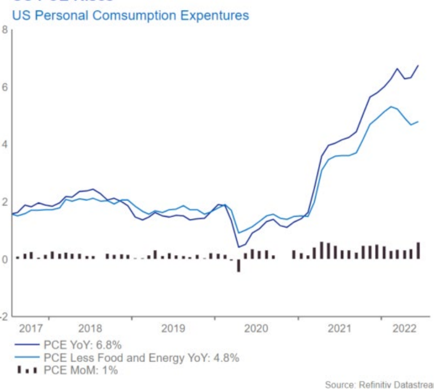
The Week Ahead

- Purchasing Manager Index (PMI) reports will be released in the US this week, which will show how the manufacturing and services sectors have performed. The release of the US jobs report will also be important, as recent employment figures are one reason why a recession has not been declared in spite of the recent GDP figures.

Week in Charts



US GDP fell for the second consecutive quarter of 2022, meeting the definition of a 'technical' recession. However, the National Bureau of Economic Research, which is responsible for determining if the US economy is in recession, did not declare one.



Personal consumption expenditures increased by 6.8% year over year in the US, a large increase from its figure of 6.3% in May. Core PCE, the Federal Reserve's preferred gauge of inflation, broke a three month streak of decreases, by rising to 4.8% year-over-year.

View From the Desk

Pavlov's dogs aren't good at investing

If, a year ago, anyone suggested that the US Federal Reserve, the world's de facto central bank, would produce a triple rate hike, and that this rate hike would be celebrated with a 5% rally in equities, they would probably be laughed out of the room. Yet, last week capped one of the best monthly performances for US equities in more than two years, despite the US central bank's aggressive tightening.

This move in equities informed investors of two things:

1. Management of expectations matters. The current rally is not attributed to the rate hike, but to the Fed's suggestion that it is reaching the 'neutral' rate. However, this phrasing may not live up to investors' expectations with respect to rate-setting policy decisions. The 'neutral' rate is where rates should be in a 'normal' economy. It does not equal the 'terminal' rate – the peak of the cycle. At current levels of 9% inflation, the terminal rate could be much higher. Instead of reading too much into this theoretical economic number, the real bullish signal is the absence of meaningful quantitative tightening, i.e., the siphoning of money from markets.
2. The Fed successfully tested the market's Pavlovian responses, proving that money supply is still the 'only game in town' for the pricing of risk assets. However, investors should not take the short-term market reaction as proof that the previous economic paradigm is intact. The US economy is close to a recession. For those on lower incomes and Small-Medium Enterprises it certainly feels like one. Global supply chains are in disarray and labour markets are tight. Thus, economic output could remain suboptimal. In addition, inflation may linger long enough to de-anchor long term consumer expectations and drive a vicious wage-growth inflation cycle.

While economic performance does not equal market or corporate performance, correlation between these metrics is high. At their core, equities are shares of a company's profit. Bonds represent the ability of companies and nations to pay their debts. In a recession, these profits may be squeezed. Higher rates don't facilitate debt refinancing and could expose weaker borrowers. Despite the Pavlovian rally in equities, parts of the bond market continue to look stressed.

Investors should remain laser-focused on fundamentals, such as valuations and cash flows.

David Baker, CIO

Important information

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