Wealth Management
Weekly Market Update

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Market Update

Last week, global equities rose +1.1% as Federal Reserve officials softened their hawkish rhetoric to convey a more general sense of policy neutrality. Federal Reserve chairman Jerome Powell spoke on Friday, emphasising the need to "make decisions [on a] meeting by meeting [basis]", indicating that the "policy rate may not need to rise as much as it would have otherwise to achieve our goals." US stocks also rose strongly, up +1.6%, as debt ceiling negotiations continue and the probability for a political impasse remains low despite party disagreements over military spending and a range of domestic programs. Japanese equities also rose sharply, up +1.4%, while gains in other developed equity markets were more muted. European equities rose +0.5%, while UK stock climbed just +0.2% as the Bank of England governor, Andrew Bailey, acknowledged the presence of a 'wage-price' spiral emerging in the UK. The general 'risk-on' sentiment in markets was also seen in the bond market, with Gilt prices falling -1.8% and yields rising on the UK and US 10-year government bonds by +21.8bps and +21.0 bps respectively. Oil prices climbed back above the $70 mark, rising +2.0%, while gold prices pared back recent gains, falling by -1.8% to end the week at $1974.9 oz.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.2%	▲ +1.6%	▲ +0.5%	▲ +1.1%	▲ +0.4%	▲ +1.4%	▼ -1.8%	▼ -0.1%

all returns in GBP to Friday close

Macro News

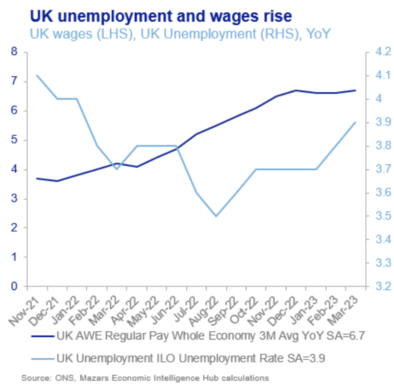
- US retail sales rose by 0.4% in April. The increase in sales was broad based, with 7 out of 13 categories rising. This rise was the first since January, showing that cooling inflation, real income gains and a strong job market are providing US consumers the means to spend. In inflation adjusted terms, retail sales grew by only 0.05% as US inflation was 0.4% in April, but this still marked an increase over the previous month, where real retail sales fell by 0.7%.
- The number of workers on UK employer payrolls dropped for the first time in two years in April, amid signs that the UK's stagnant economy has been putting pressure on the labour market. The UK unemployment rate also rose to 3.9% for the period of January to March 2023, from 3.8% in the previous quarter, while job vacancies fell by 50,000. Wages continued to grow, with regular pay growing by 6.7% year-on-year, and total pay (with bonuses) growing by 5.8%.

The Week Ahead

- Investors will be focusing their attention on debt ceiling negotiations this week as Treasury Secretary Janet Yellen confirmed 1 June as a hard deadline for raising the limit. It is believed that a deal will most likely be reached, especially as talks between Joe Biden and Kevin McCarthy have been described as 'productive'.

Week in Charts

US retail sales rose by 0.4% in April, after falling in the previous two months. In inflation adjusted terms, sales rose by 0.05% as consumer prices also rose by 0.4% in April.



The UK employment rate ticked up to 3.9%, largely driven by people unemployed for over 12 months. Meanwhile, the 6.7% growth in regular pay is the highest (ex-pandemic) rate of growth in over 20 years.

View From the Desk

It was an undeniably good week for markets. US equities rose, breaking their ceiling, which held from September. This was down to two simple reasons: The closing in of a debt ceiling deal and a perhaps slightly more dovish Fed.

a) Republicans and Democrats seem to be close to a debt ceiling deal.

b) Some dovish comments by Fed officials, especially at the end of the week, which suggested that the US central bank could pause rate hikes for the time being.

However, investors and markets should not mistake political communication for a 'central bank forward guidance' type of dictum. What may appear as 'closing comments' could easily prove to be 'opening salvos' in a blame game by two sides determined not to reach an accord. "We had every good intention, but the other side…"

On a similar note, markets seem to be a bit too relaxed with the Fed. On Friday, Chairman Powell quelled some fears that the Fed would hike again at the next meeting. Comments by some voting Fed officials earlier, especially by Dallas Fed President Lorrie Logan who is seen as close to the Fed Chair, caused some concerns: "The data in coming weeks could yet show that it is appropriate to skip a meeting. As of today, though, we aren't there yet". Powell, on the other hand, said that the Fed would pivot from a rate-hike cycle to a meeting-by-meeting decision-making process. He also intoned that "policy rate may not need to rise as much as it would have otherwise to achieve our goals". Following suit, Neil Kashkari, Minneapolis Fed President and voting dove-turned-hawk suggested that "I'm open to the idea that we can move a bit more slowly here".

The Fed needs to communicate very carefully and mean what it says. And what it is very clearly saying is that "we may be done, or we may not be done yet, we don't yet have the data to know for certain". Investors sometimes prefer to listen to their 'gut' as opposed to the actual commentary by policymakers. As an investment strategy, we don't put much stock in the clairvoyant powers of one's intestines. Instead, we prefer to take the Fed's words at their exact face value.

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