Wealth Management
Weekly Market Update

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Market Update

Last week, global markets fell -1.2% as geopolitical instability, in the form of a mercenary uprising against the Russian military, fuelled worries that further supply-side inflation could lay in store for developed economies. The risk off sentiment triggered a rise in safe-haven assets, with Gilt prices rising +0.6% and the US Dollar rising +0.8% versus Sterling. Thanks to US Dollar strength, US markets were the least impacted by the sell off in GBP terms, falling -0.5%. Other developed markets fared less well. UK equities plummeted -2.3% as headline inflation in May was reported to have remained at 8.7%. This inflation figure was far worse than markets anticipated, and increases the pressure on the Bank of England, who swifty followed up with a largely unanticipated 50bps rate hike. This will put additional pressure on both an economy already facing a weak growth outlook, and consumers that continue to wrestle with higher prices. European, Japanese, and emerging market equities also followed suit, falling -2.4%, -2.0% and -2.8% respectively. Oil prices struggled under a weakening global demand outlook, falling -3.3%, while gold prices fell -1.0% to end the week at $1921.4/oz.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -2.3%	▼ -0.5%	▼ -2.4%	▼ -1.2%	▼ -2.8%	▼ -2.0%	▲ +0.6%	▼ -0.8%

all returns in GBP to Friday close

Macro News

- UK inflation stayed at 8.7% year-on-year in May, unchanged over the previous month, and above expectations of 8.4%. Prices were driven up by demand for recreational and cultural goods and services, which rose by their highest rate since August 1991. This was enough to offset a fall in fuel prices and a moderation in the rate of food inflation. Core inflation, which excludes volatile items such as energy, food, alcohol and tobacco, also surprised on the upside, rising 7.1% when a rate of 6.8% was expected.
- In response to the inflation data, the Bank of England hiked interest rates by half a percentage point to a rate of 5%. The 7-2 decision by the Monetary Policy Committee surprised markets, which had priced in a 60% chance of a smaller quarter point hike. The move puts further pressure on borrowers, who have seen mortgage rates rise above 6% in recent months.

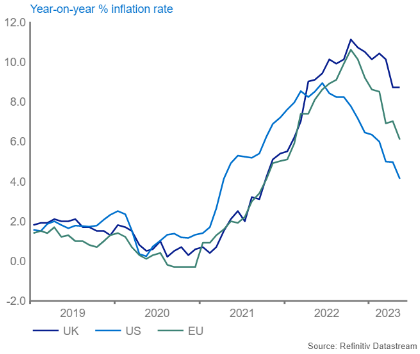
The Week Ahead

- Markets will be watching PMI data, which will be released for the UK and US this week. The US job market will also be in focus as nonfarm payroll, unemployment and wage growth data will come out on Friday.

Week in Charts

UK Inflation remains at 8.7%

Year-on-year % inflation rate



While other countries have seen a steady fall in headline inflation in the past months, the path of UK inflation has been less smooth. In May, the UK's rate of inflation did not fall, remaining at the previous month's level of 8.7%.

UK retail sales remain strong

UK retail sales monthly % change

UK retail sales rose by 0.3% in the month of May, surpassing expectations of a 0.2% decline. Sales were boosted by the warm weather, which led to strong sales in outdoor related goods and summer clothing.

View From the Desk

I spent an hour and a half, on a Saturday no less, writing a deep geopolitical/economic thesis about the impact of Prigozhin's mutiny, which was turned into digital confetti by the afternoon when the warlord yielded. Starting a 'march' on the Kremlin with less than 25,000 soldiers seems like madness from the outside. Maybe it was, or maybe it wasn't. We have no real way of analysing what actually happened. After some introspection, I came to the conclusion that Russia is a big country, with a lot of resources, but also a very tightly controlled information network. We will always know very little about it, so speculating is a waste of time. We will classify it as a 'known unknown' and never probably have a big strategic investment position in it, at least for the foreseeable future.

But that doesn't mean it shouldn't concern us.

Last week, British consumers were faced with a shock from the Bank of England, which hiked rates twice. According to the FT, if rates go up to 6% by the end of the year (which is what markets expect), the average mortgage would go up by £2900 per annum. We posted an op-ed on FT Adviser about inflation in the UK being too high and that policymakers could trigger a recession to break it.

As if the UK central bank didn't have enough to worry about, now it needs to fret about Russia.

Whether we like it or not, however, Russia is very important for the global supply chain, due to its status as a major energy supplier and commodities exporter. And the question is not how we will think about things long-term, but how will commodity traders and corporates react over the shorter term. Will they try to hoard commodities and energy, fearing fresh instability out of Russia?

A running theme since the beginning of the year for us was increased uncertainty and unpredictability, in a world that shows no signs of returning to its pre-pandemic balance. While we don't know what happened, we should not be surprised if we see upheaval in the commodities market, as investors fear further destabilisation. As a reminder, global inflation was 'transitory' and probably under control, until the war in Ukraine pushed commodity and energy prices beyond the threshold consumers could tolerate before they went to their bosses and asked for a raise. Russia's war arguably catalysed the transformation of inflation from supply-driven to demand-driven, a much more difficult form to deal with.

Sticky inflation is probably the key risk for 2023. The biggest economic and financial concern from further Russian instability is that supply chain breakdowns could lead to a fresh inflationary cycle, at a time when we are not nearly done fighting the previous one.

George Lagarias – Chief Economist

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