Wealth Management
Weekly Market Update

Blog - LinkedIn - Twitter
Publications - Web
Contact Us

Published 5 June 2023

Market Update

US stocks rallied last week as Congress passed its debt ceiling bill, averting default for the world's largest economy. Two days before the default X-date of 5 June, after which the Treasury would run out of funds to pay its bills, the Fiscal Responsibility Act of 2023 was passed by House with a vote of 314 to 117 and the Senate by a vote of 63 to 36. US large cap stocks increased by almost +2% over the week, although this rise was only +1% in Sterling terms as the US Dollar weakened relative to the Pound. Both gold and US treasuries fell on Friday as investors started to embrace risk-on sentiment following the debt ceiling vote. Markets also responded to US employment data. The JOLTs job openings report showed a higher than expected rate of job openings, while nonfarm payrolls blew past expectations, coming in at 339k added in May. UK and EU stocks each moved by less than 0.2% in local terms, although EU stocks were down by -0.9% in Sterling terms due to currency fluctuations. Japanese equities rose by +1.4% over the week, building on recent strength, which has been due to cheap valuations and signs that the economy may be exiting its deflationary spiral of recent decades.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.2%	▲ +1.0%	▼ -0.9%	▲ +0.7%	▶ 0.0%	▲ +1.4%	▲ +1.8%	▲ +0.9%

all returns in GBP to Friday close

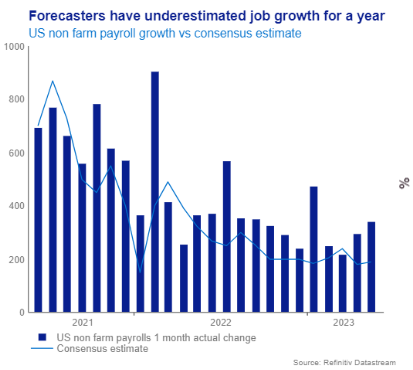
Macro News

- US nonfarm payrolls surged in May, increasing by 339k and far exceeding market expectations of a 195k rise. The increase was broad-based, reflecting gains across the healthcare, professional and business services and government sectors. However, not all aspects of the report were positive, as the unemployment rate rose from 3.4% to 3.7%, the largest jump since the pandemic. Wage growth slowed in May from 4.4% to 4.3% year-on-year.
- In April 2023, the euro area seasonally-adjusted unemployment rate fell to 6.5%, down from 6.6% in March 2023 and from 6.7% in April 2022. The figures are the lowest unemployment rate figures since the European Union's statistical office started compiling jobless data for the Eurozone in April 1998.
- The US manufacturing PMI fell further in May to 46.9, its seventh consecutive monthly decrease.

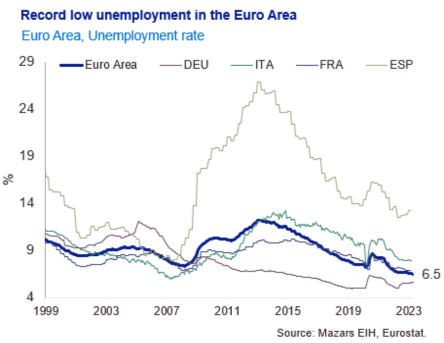
The Week Ahead

- With the debt ceiling crisis out of the way, investors will turn their attention back to economic data. In the US, durable goods and consumer credit data will be released, while retail sales data will be released for the EU.

Week in Charts



US payrolls rose by 339k in May, once again beating economist expectations. The unemployment rate also increased from 3.4% to 3.7%, the largest increase since the pandemic.



The euro area unemployment rate fell to its lowest level since records began in April at a seasonally adjusted rate of 6.6%.

View From the Desk

The debt ceiling drama-that-wasn't is squarely behind us. An eleventh-hour deal was signed, averting the wanton default by the largest economy in the world, and the global risk-free asset, the US Dollar, marking the seventy-nineth straight time that the debt ceiling was successfully raised.

As markets celebrate Congress's decision not to self-immolate, investors should reflect on how low the bar for rational behaviour by policymakers is, and whether risk premiums reflect the present political and geopolitical tectonic shifts.

The first and foremost is the risk that inflation is becoming stickier, making monetary policy more constrictive and credit tighter. Even in the best case scenario, it's difficult to see US inflation below 3% by the end of the year and UK inflation below 5%. Despite what's being priced-in in bonds, it is very likely that we will not see easing of rates this year. Thus, barring a significant financial accident, investors should expect credit conditions to continue tightening for at least the next three quarters.

In light of that tightening, all manner of risk could unfold.

With inflation this high, policy becomes uncertain. A couple of weeks ago, British Chancellor Jeremy Hunt said that he would be happy with a recession if it brought down inflation. This is a far cry from the pro-growth policies most investors have become accustomed to. And inflation effects are also diverging. The US, the UK and the EU outlook for monetary policy continues to decouple, adding an extra layer of difficulty for global asset allocators.

Shadow banks, organisations that essentially borrow and lend money without actually being banks, are coming into the spotlight. These shadow banks don't enjoy the protections of regular banks, so a liquidity event could have unforeseen repercussions.

Private Equity is also an emerging risk. Funds that built their existence on the ability to borrow cheaply are now faced with potential losses as rates rise and valuations drop. Real valuations remain a mystery. Private companies won't sell stakes at lower prices, to avoid losing their high valuations. They also can't borrow as rates are high. Some of them will face existential dilemmas, as will their owners.

Money remains expensive. With tight labour markets and relatively robust consumption we should expect it to remain so for the next year or so. Those organisations that relied too much on cheap money will find themselves facing a difficult future. This year's investment theme is not to be bearish. It is to be very cautious and very selective. It is the year that doing homework will pay off.

George Lagarias – Chief Economist