

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- After US bank bellwether JP Morgan easily beats consensus estimates, US Q1 results season hots up this week with more banks, and tech results due
- As financial stress fears continue to recede after last month's hiatus, the flipside is that markets are rebuilding expectations for a US Federal Reserve (Fed) rate hike in May
- US Congress debt ceiling talks still a tail risk, as investors continue to frame as a political stand-off between Republicans and Democrats for now

A slightly lighter economic calendar, but more company results instead this week

Despite a weaker day on Friday in dollar terms, equity markets managed to finish the week in positive territory, as financial stress fears continued to recede after last month's hiatus. The flipside though, is that markets have been rebuilding expectations around a Fed hike on 3 May when the Fed next meets, with probability of a 25bps hike now at 81. Turning to the week ahead, it's a slightly lighter economic calendar. In terms of what to look out for, China's Q1 growth following its reopening will be in the spotlight when it releases Gross Domestic Product (GDP) numbers tomorrow. Elsewhere, investors will be focusing in on labour market and inflation releases from the UK due tomorrow and Wednesday respectively. Over in the US, the Fed releases its latest 'Beige book' on Wednesday, where the regional Fed banks gather up anecdotal information on current economic conditions in their areas. With the US Q1 earnings season now underway, company results ramp up with more bank results due this week, including Bank of America, Morgan Stanley, and Goldman Sachs, as well as results from Tesla, IBM and Netflix. Finally, the global flash PMIs for April due Friday will bookend the week, as investors continue to focus on recession risks.

US bank sector results gets off to a good start

Friday saw US bank sector results get underway, with bellwether JP Morgan easily beating expectations. Alongside an expected boost to deposit inflows following customers seeking perceived safety in the bigger banks, JP Morgan also posted a huge jump in its net interest income (which is broadly speaking the difference between what it pays on deposits and earns on loans and other assets). Significantly, JP Morgan CEO Jamie Dimon and his team stressed that the 1Q deposit inflows were not driving its higher interest-income forecast, now expected to be \$81bn this year, up from a previous estimate of \$74bn, with Dimon saying that "the US economy continues to be on generally healthy footings, consumers are still spending and have strong balance sheets, and businesses are in good shape." Clearly one bank's results doesn't dictate the whole sector, and it's likely that results from some other US banks, including smaller regional banks in coming weeks might look less robust, but as results go, it was a good start to the earnings season, which investors are watching closely in terms of the expected earnings outlook for this year.



US debt ceiling talks still a tail-risk

Later today sees US House of Representative Speaker Kevin McCarthy (Republican) giving a speech that's expected to cover the Republicans' position on the issue. As a recap, the US is expected to come up against the debt ceiling again this summer, and the Republicans have said they want concessions like spending cuts in return for passing an increase. Since the Republicans now have a majority in the House of Representatives, versus a Democrat-controlled Senate, it suggests that there will have to be some concessions from both sides. For the time being, investors on balance seem to be framing these talks as largely political still, but that does leave a tail-risk for markets should the mood on Congress deteriorate.

What does Brooks Macdonald think

Despite firming expectations of a Fed hike next month, markets are still expecting cuts later this year, with the Fed December meeting rate expectation currently at 4.50%. While that's up a long way from the 3.75% low at the height of the US banking turmoil last month, it is still at odds with a Fed which on balance is likely looking to want to hike and then hold rates at those higher levels. With the next Fed meeting only two weeks away on Wednesday, this week is the last time we'll be able to hear from Fed speakers before their blackout period begins on Saturday.

Economic indicators (week beginning 10 April)

Day	Data Release	Consensus	Prior	Actual
Monday	France S&P Global France Manufacturing PMI Mar F	47.7	47.7	47.3
	United States ISM Manufacturing Mar	47.5	47.7	46.3
	Australia Building Approvals MoM Feb	10.00%	-27.60%	4.00%
	China Caixin China PMI Mfg Mar	51.4	51.6	50
	Japan Jibun Bank Japan PMI Mfg Mar F	--	48.6	49.2
	Italy S&P Global Italy Manufacturing PMI Mar	51	52	51.1
	Germany S&P Global/BME Germany Manufacturing PMI Mar F	44.4	44.4	44.7
	United Kingdom S&P Global/CIPS UK Manufacturing PMI Mar F	48	48	47.9
	Canada S&P Global Canada Manufacturing PMI Mar	--	52.4	48.6
	Japan Tankan Large Mfg Index 1Q	3	7	1
	Japan Tankan Large All Industry Capex 1Q	14.20%	19.20%	3.20%
	Japan Tankan Large Mfg Outlook 1Q	3	6	3
	Japan Tankan Large Non-Mfg Index 1Q	20	19	20
	Australia Melbourne Institute Inflation MoM Mar	--	0.40%	0.30%
Japan Tankan Large Non-Mfg Outlook 1Q	17	11	15	
Tuesday	Australia RBA Cash Rate Target 38078	3.60%	3.60%	3.60%
	United States Durable Goods Orders Feb F	-1.00%	-1.00%	-1.00%
	United States Factory Orders Feb	-0.50%	-1.60%	-0.70%
Wednesday	France Industrial Production MoM Feb	0.50%	-1.90%	1.20%
	United States MBA Mortgage Applications 11383	--	2.90%	5.30%
	France S&P Global France Services PMI Mar F	55.5	55.5	53.9
	United States ADP Employment Change Mar	210k	242k	145k
	United States Trade Balance Feb	-\$68.8b	-\$68.3b	-\$70.5b
	France S&P Global France Composite PMI Mar F	54	54	52.7
France Industrial Production YoY Feb	-0.20%	-2.20%	1.30%	
Thursday	United States Initial Jobless Claims 36982	200k	198k	239k
	Canada Unemployment Rate Mar	5.10%	5.00%	5.00%
	Germany Industrial Production SA MoM Feb	-0.30%	3.50%	2.00%
	Canada Net Change in Employment Mar	15.0k	21.8k	34.7k
	Australia Trade Balance Feb	A\$11323m	A\$11688m	A\$13870m
Friday	United States Change in Nonfarm Payrolls Mar	240k	311k	236k
	United States S&P Global US Manufacturing PMI Mar F	49.3	49.3	49.2
	United States Unemployment Rate Mar	3.60%	3.60%	3.50%
	Germany Factory Orders MoM Feb	0.50%	1.00%	4.80%

Source: Bloomberg, data accessed 03/04/23



Economic indicators (week beginning 17 April)

Day	Data Release	Consensus	Prior
Monday	Italy CPI EU Harmonized YoY Mar F	8.20%	8.20%
	United States Empire Manufacturing Apr	-18	-24.6
Tuesday	Germany ZEW Survey Expectations Apr	15.2	13
	China GDP YoY 1Q	4.00%	2.90%
	Canada CPI YoY Mar	4.30%	5.20%
	Germany ZEW Survey Current Situation Apr	-40	-46.5
	United Kingdom Jobless Claims Change Mar	--	-11.2k
	United Kingdom ILO Unemployment Rate 3Mths Feb	3.70%	3.70%
	United States Housing Starts Mar	1400k	1450k
	China Industrial Production YoY Mar	4.40%	--
	China Retail Sales YoY Mar	7.50%	--
United Kingdom Claimant Count Rate Mar	--	3.80%	
Wednesday	Japan Industrial Production MoM Feb F	--	4.50%
	United Kingdom CPI YoY Mar	9.80%	10.40%
	United Kingdom CPI MoM Mar	0.50%	1.10%
	United Kingdom CPI Core YoY Mar	6.00%	6.20%
	United States MBA Mortgage Applications 41730	--	5.30%
	Canada Housing Starts Mar	245.0k	244.0k
Thursday	United States Initial Jobless Claims 42095	240k	239k
	Japan Tertiary Industry Index MoM Feb	0.40%	0.90%
	United States Existing Home Sales Mar	4.50m	4.58m
	United States Leading Index Mar	-0.70%	-0.30%
Friday	France S&P Global France Manufacturing PMI Apr P	47.8	47.3
	Japan Jibun Bank Japan PMI Mfg Apr P	--	49.2
	Germany S&P Global/BME Germany Manufacturing PMI Apr P	45.6	44.7
	United Kingdom S&P Global/CIPS UK Manufacturing PMI Apr P	48.5	47.9
	United States S&P Global US Manufacturing PMI Apr P	49	49.2
	Japan Natl CPI YoY Mar	3.20%	3.30%
	France S&P Global France Services PMI Apr P	53.5	53.9
	Canada CPI NSA MoM Mar	0.60%	0.40%
	France S&P Global France Composite PMI Apr P	53	52.7
	United Kingdom Retail Sales Inc Auto Fuel MoM Mar	-0.50%	1.20%

Source: Bloomberg, data accessed 17/04/23



Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2262	1.66%	1.73%	5.51%	6.87%
MSCI USA USD	3926	0.83%	0.84%	7.86%	8.23%
MSCI Europe ex UK EUR	186	1.91%	2.00%	11.44%	12.15%
MSCI AC Asia Pacific ex JPN USD	528	1.09%	1.12%	4.46%	5.01%
MSCI Japan JPY	1230	2.77%	2.78%	6.91%	8.00%
MSCI Emerging Markets USD	1000	1.36%	1.39%	4.61%	5.11%
Barclays Sterling Gilts GBP	228		-2.07%		1.07%
GOLD USD	2004	-0.19%		9.88%	
WTI Oil USD	83	2.26%		2.82%	
MSCI PIMFA Income		0.54%	0.59%	2.68%	3.38%
MSCI PIMFA Balanced		0.67%	0.72%	3.22%	3.91%
MSCI PIMFA Growth		1.07%	1.11%	3.79%	4.48%

Source: Bloomberg, MSCI; please see important information, data accessed 17.04.23

YTD denotes year to date, TR denotes total return and CR denotes capital return.



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