

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- Equities rose last week despite the risks of the US defaulting on its debt obligations
- President Biden and Republican Speaker McCarthy are set to meet at the White House to continue negotiations
- This week sees the release of the US Federal Reserve's (Fed) preferred inflation measure as well as the UK's inflation numbers

Equities rose last week despite the risks of the US defaulting on its debt obligations

Equity markets rose last week as investors shrugged off the impending US debt ceiling deadline, focusing on a constructive earnings season and the likelihood that the US has already reached its peak interest rate for this economic cycle.

President Biden and Republican Speaker McCarthy are set to meet at the White House to continue negotiations

Despite the fact there is still no final deal, and Republican negotiators walked out of talks on Friday, last week saw growing optimism that the US political leadership would find a compromise arrangement to avoid defaulting on US obligations. This helped equity markets to rise after trading in a tight range over the last month given concerns around the US debt ceiling and US regional banks. President Biden and House Speaker McCarthy are set to continue debt ceiling talks at the White House later today. Over the weekend there was a phone call which pointed to a more constructive tone than one would have imagined from the walkout on Friday. With Treasury Secretary Yellen warning that the chances were 'quite low' that the US could meet its obligations from mid-June, the stakes are high even if the mood music appears more favourable.

This week sees the release of the Federal Reserve's preferred inflation measure as well as the UK's inflation numbers

This week will see the release of the Personal Consumption Expenditure (PCE) inflation data series in the United States. This is the Fed's preferred inflation measure and will be a major consideration when the Fed meets to determine the US interest rate in June. The University of Michigan will also release its final survey readings on Friday which include the medium-term consumer inflation expectations. The preliminary readings showed that consumer expectations for 5-10 year inflation had risen significantly (2.9% to 3.2%) which if confirmed in the final reading would be a concern to the Fed that is trying to keep expectations closely anchored to its 2% target. The latest UK inflation numbers will come on Wednesday with the market expecting a sharp fall from last month's 10.1% year-on-year rise to 8.2%. Core inflation is expected to remain quite sticky however, falling from 6.2% to 6% year-on-year.

Despite US, and global, inflation remaining higher than policy makers would have hoped, the market still considers a pause in US interest rates as the most likely outcome. On Friday Fed Chair Powell said that 'we can afford to look at the data and the evolving outlook to make careful assessments', indicating that the Fed is in no rush to raise rates given that there is a lag between their previous hikes and the impact on the economy.



Economic indicators (week beginning 15 May)

Day	Data Release	Consensus	Prior	Actual
Monday	Japan PPI YoY Apr	5.60%	7.20%	5.80%
	United States Empire Manufacturing May	-4	10.8	-31.8
	Canada Housing Starts Apr	220.0k	213.9k	261.6k
Tuesday	Germany ZEW Survey Expectations May	-5	4.1	-10.7
	Canada CPI YoY Apr	4.20%	4.30%	4.40%
	Italy CPI EU Harmonized YoY Apr F	8.80%	8.80%	8.70%
	Germany ZEW Survey Current Situation May	-37	-32.5	-34.8
	United States Retail Sales Advance MoM Apr	0.80%	-1.00%	0.40%
	United Kingdom Jobless Claims Change Apr	--	28.2k	46.7k
	United Kingdom ILO Unemployment Rate 3Mths Mar	3.80%	3.80%	3.90%
	China Industrial Production YoY Apr	10.90%	3.90%	5.60%
	Canada CPI NSA MoM Apr	0.50%	0.50%	0.70%
	China Retail Sales YoY Apr	21.90%	10.60%	18.40%
Wednesday	Australia Westpac Consumer Conf SA MoM May	--	9.40%	-7.90%
	United Kingdom Claimant Count Rate Apr	--	3.90%	4.00%
	Japan Industrial Production MoM Mar F	--	0.80%	1.10%
	Japan GDP SA QoQ 1Q P	0.20%	0.00%	0.40%
	Japan GDP Annualized SA QoQ 1Q P	0.80%	0.10%	1.60%
Thursday	United States MBA Mortgage Applications 41030	--	6.30%	-5.70%
	Japan GDP Deflator YoY 1Q P	2.10%	1.20%	2.00%
	United States Initial Jobless Claims 41395	252k	264k	242k
	Australia Unemployment Rate Apr	3.50%	3.50%	3.70%
	Australia Employment Change Apr	25.0k	53.0k	-4.3k
Friday	United States Leading Index Apr	-0.60%	-1.20%	-0.60%
	Australia Participation Rate Apr	66.70%	66.70%	66.70%
	Japan Natl CPI YoY Apr	3.50%	3.20%	3.50%
	United States Housing Starts Apr	1400k	1420k	1401k
	United States Industrial Production MoM Apr	0.00%	0.40%	0.50%
	Japan Tertiary Industry Index MoM Mar	0.30%	0.70%	-1.70%
	United States Existing Home Sales Apr	4.30m	4.44m	4.28m

Source: Bloomberg, data accessed 22.05.23



Economic indicators (week beginning 22 May)

Day	Data Release	Consensus	Prior
Monday	Japan Core Machine Orders MoM Mar	0.40%	-4.50%
	France HCOB France Manufacturing PMI May P	46	45.6
Tuesday	Japan Jibun Bank Japan PMI Mfg May P	--	49.5
	Germany HCOB Germany Manufacturing PMI May P	45	44.5
	United Kingdom S&P Global/CIPS UK Manufacturing PMI May P	48	47.8
	France HCOB France Services PMI May P	54	54.6
	France HCOB France Composite PMI May P	52	52.4
	Germany IFO Business Climate May	93	93.6
Wednesday	United Kingdom CPI YoY Apr	8.20%	10.10%
	United Kingdom CPI MoM Apr	0.80%	0.80%
	United Kingdom CPI Core YoY Apr	6.20%	6.20%
	United States MBA Mortgage Applications 43586	--	-5.70%
	Germany IFO Expectations May	91.6	92.2
Thursday	United States Initial Jobless Claims 43952	248k	242k
	United States GDP Annualized QoQ1Q S	1.10%	1.10%
Friday	Italy Manufacturing Confidence May	102.5	103
	United States U. of Mich. Sentiment May F	58	57.7
	United States Durable Goods Orders Apr P	-1.00%	3.20%
	Japan Tokyo CPI Ex-Fresh Food YoY May	3.40%	3.50%
	United States S&P Global US Manufacturing PMI May P	50	50.2
	United States New Home Sales Apr	663k	683k
	Australia Retail Sales MoM Apr	0.30%	0.40%
	Italy Consumer Confidence Index May	105	105.5
	United States Personal Income Apr	0.40%	0.30%
	United States Personal Spending Apr	0.40%	0.00%
United Kingdom Retail Sales Inc Auto Fuel MoM Apr	0.30%	-0.90%	

Source: Bloomberg, data accessed 22.05.23



Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2222	-0.11%	0.07%	3.66%	5.63%
MSCI USA USD	3977	1.66%	1.70%	9.24%	9.74%
MSCI Europe ex UK EUR	187	0.83%	0.93%	12.02%	13.81%
MSCI AC Asia Pacific ex JPN USD	513	0.60%	0.69%	1.52%	2.29%
MSCI Japan JPY	1323	3.55%	3.58%	14.97%	16.20%
MSCI Emerging Markets USD	977	0.44%	0.51%	2.18%	2.94%
Barclays Sterling Gilts GBP	220		-2.03%		-2.35%
GOLD USD	1978	-1.64%		8.43%	
WTI Oil USD	72	2.16%		-10.85%	
MSCI PIMFA Income		0.09%	0.17%	1.59%	2.58%
MSCI PIMFA Balanced		0.28%	0.35%	2.32%	3.31%
MSCI PIMFA Growth		0.72%	0.80%	3.35%	4.34%

Source: Bloomberg, MSCI; please see important information, data accessed 22.05.23

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



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