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Investment Management

Weekly Investment Update

21st October 2022

News Headlines

Truss resigns – After 44 days in office (the shortest ever time in the role), Liz Truss resigned as UK prime minister. Truss faced mounting pressure since the unpopular announcements made in the mini budget just a few weeks ago. The increasing frustration with Truss' leadership showed when chaos seemed to break out in the House of Commons on Thursday. Amongst infighting between Conservative MPs during a routine vote, the PM's senior staff resigned. In the speech announcing her resignation, Truss confirmed that the UK would have a new prime minister by next Friday, with Boris Johnson favourite to take the job back.

Meanwhile, looking at the economic situation, inflation figures in the UK hit another 40-year high, rising by 10.1% year-on-year in September driven by higher food prices. Latest figures also show that consumer confidence remains at a 50-year low as the political and financial turmoil continues.

Federal Reserve – The Federal Reserve cannot pause monetary tightening at the expected terminal interest rate of 4.5%-4.75% if underlying inflation is still accelerating according to Minneapolis Federal Reserve President, Neel Kashkari. Another President, James Bullard, expects the central bank to end its "front loading" of aggressive rate hikes by early 2023, and suggested that there is no need to push interest rates higher than officials have already projected. The market now predicts that the key interest rate could reach 4.9% early next year, with the next announcement being made in two weeks' time.

Market Summary

Global Equities – Risk-on sentiment at the start of the week saw global equities rally sharply. The upbeat mood was supported by some positive corporate earnings and news flow out of the US. The positive sentiment petered out midweek, however, after investors turned their attention back to central banks and their hawkish rhetoric. Members of the US Federal Open Market Committee reiterated that interest rates will continue to rise until inflation is under control, which saw the Federal Reserve funds futures showing that markets are factoring in that the interest rate will be above 5% next year. Despite sentiment souring a little, equities still posted healthy gains, with the MSCI World index finishing up +2.05% for the week as at Thursday's close.

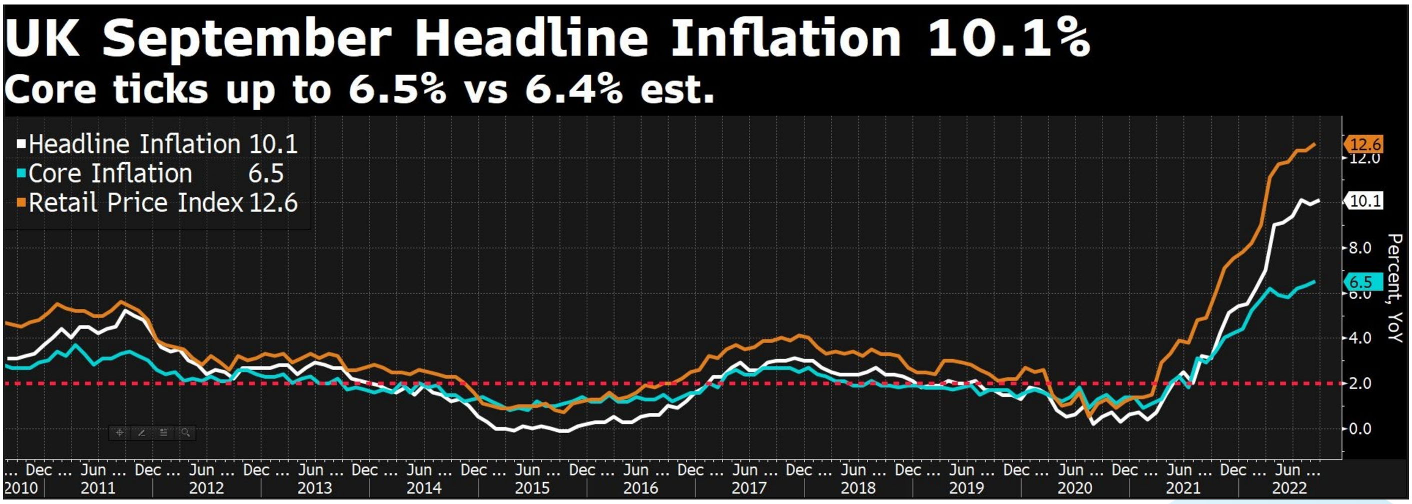
Commodities – Oil prices (Brent Crude & WTI) saw little change throughout the week but are on track for a second week of losses as fears of an economic slowdown persist.

Gold remained under pressure, hovering around $1,620 per ounce. Rallying bond yields and a strong US dollar curbed the appeal of the precious metal, seeing it trade at three-week lows.

Natural gas prices in Europe saw five days of declines and their lowest price levels in four months as long-range weather forecasts predict that we won't see a cold harsh winter in Europe, which will reduce the demand for heating.

Fixed Income – Renewed hawkishness from central banks after higher-than-expected inflation data in a number of countries saw sovereign bond yields increase in major economies. The US 10-year yield rose to its highest level since 2008, while the 10-year yield in Germany saw its highest level since 2011.

Chart of the Week



Source: Bloomberg – Inflation in the UK remains at levels not seen in 40 years

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- US consumer confidence	- Bank of Canada rate decision - Australia CPI yy - US single home sales	- European Central Bank rate announcement - US jobless claims	- Japan unemployment rate - Germany GDP flash yy

Market Performance – 21/10/2022

Global Market Indices	2022 YTD %*
FTSE 100	-4.57%
S&P 500	-22.57%
STOXX 600	-16.78%
Nikkei 225	-6.07%
Hang Seng	-27.81%
Fixed Income	**Yield %**
UK 10 Yr Gilt	3.99%
US 10 Yr Treasury	4.22%
Commodities	**2022 YTD %**
Gold	-10.81%
Currency	
GBP/USD	1.12 (21/10/2022)
GBP/EUR	1.15 (21/10/2022)

Source: FE Analytics/ Bloomberg.com **Total Return/Local currency*

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