

Few places to hide for investors

Key takeaways

Despite the volatility, global stock markets suffered relatively muted losses last week. Government bonds also took another hit while gold tumbled as anxious investors booked profits.

Muted turmoil

After a volatile week of trading, oil finished the week almost 9% higher, at over \$112 a barrel. It started March at around \$71. This helped bring up a fourth consecutive week of losses for the S&P 500 Index of US shares – its longest weekly losing streak for a year. The tech-heavy Nasdaq Index also retreated just over 2% last week, while gold delivered a third week of losses to be down 10% in sterling terms.

Among stock markets, US shares continued to outperform those in Europe and the UK. Japan, Asia Pacific and emerging markets outperformed the US last week with more restrained losses, with all three still strongly ahead for the year.

Meanwhile, the US dollar continues to strengthen as investors seek dollar exposure. This is benefitting the Magnificent 7 stocks and other US mega-caps.

Central banks keep rates on hold

The US Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan all announced their latest interest-rate decisions last week. All four held interest rates, and all four referenced the inflation threat posed by rising energy costs.

While US government bonds sold-off modestly, UK government bonds (gilts) were especially hard hit by energy price fears and a more 'hawkish' tone from the Bank of England that opened the door to the possibility of further UK interest-rate hikes.

Gilt yields hit their highest level since the global financial crisis, meaning their prices hit new lows (prices and yields move in opposite directions). This has pushed up government borrowing costs and erased the Chancellor's fiscal headroom at a time when British households are facing a likely 20% hike in energy costs this year.

Energy fears stalk UK gilt and housing markets

Last week's decision by the Bank of England to keep interest rates on hold at 3.75% helped UK high-street mortgage rates to rise by around 0.5%. The average two-year fixed-rate deal jumped to its highest level for a year last week, after mortgage lenders had previously withdrawn hundreds of mortgage offers.

This reflects the fact that inflation expectations are rising far faster in the UK than elsewhere. UK inflation was already at 3% prior to the onset of the Iran war, somewhat higher than in Europe and the US. This higher starting point, coupled with the UK's greater vulnerability to energy-price shocks, explains why UK gilts have meaningfully underperformed US government bonds so far in March.

Last week's upheaval in the gilt market was exacerbated by hedge funds rapidly unwinding their positions as expectations turned from two UK rate cuts this year, to the potential for further rate rises.



Market moves

Global stock markets retreated by just over 2% last week in the face of ongoing market volatility driven by the Iran war and fears of an energy-driven inflation spike.

European shares were the biggest losers. They fell 3.5%, while UK shares were close behind.

UK government bonds (gilts) suffered further losses as did US government bonds (Treasuries).

What to look out for this week

This week sees manufacturing and services PMI (Purchasing Managers' Index) data for Australia, Japan, the UK, the US and Europe. PMI data is a 'leading' economic indicator; a PMI score above 50 signals economic expansion, below 50 shows contraction.

The US announces non-farm productivity, and labour costs on Tuesday, followed by import and export price data on Wednesday, and jobless numbers on Thursday.

Wednesday sees a slew of UK inflation, and input and output data, followed by consumer confidence and retail sales numbers on Friday.



If you have questions about financial markets, or our investment services, please contact the Marketing team:

marketing.hwam@handelsbanken.co.uk

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