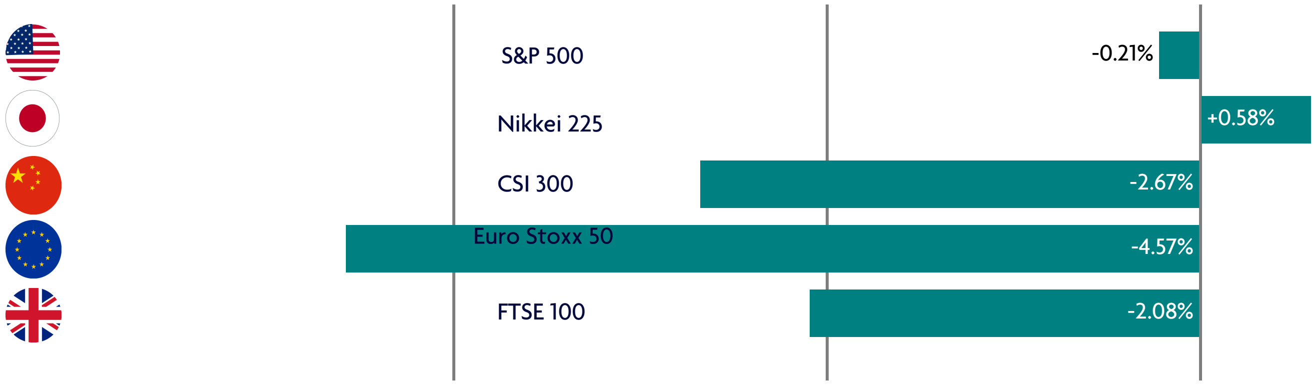
Weekly Market Update

9 May 2022

In another volatile week in markets, the focus remains on how central banks plan on taming inflation and the impact this could have as economic growth around the world continues to slow. Last week, both the US and UK central banks raised its interest rates. China's zero-tolerance to Covid shows signs of impact on the Chinese economy, and the associated supply chain disruptions are having repercussions globally.

Market Monitor (%): How did major stock markets perform last week?



Market Update:

UK

The Bank of England raised interest rates again, to 1.0%, the highest level since 2009, to try and tame inflation. It also highlighted the potential for the UK to slip into a recession by year-end and warned that inflation could exceed 10% in the final few months of the year. These developments helped to push the British pound to a two-year low. Investors' concerns were further fuelled when official data showed that rising prices of energy and raw materials are hitting UK businesses hard.

US

Stocks endured a fifth consecutive week of losses as interest rate and inflation worries continued to weigh on sentiment. The Federal Reserve raised interest rates by 0.5% - the largest move since 2000. As this move was widely expected, the market's initial reaction was muted. However, remarks from policymakers kept investors worried that the US central bank could continue with aggressive interest rate hikes, particularly as inflation data continues to surprise on the upside.

Europe

Shares in Europe tumbled amid fears that central banks may have to step up their efforts to control inflation, potentially raising interest rates as early as the third quarter of 2022, which would increase the risk to economic growth. Lockdowns in China to curb the spread of the coronavirus and the Ukraine conflict added to the uncertainty. German manufacturing, EU retail sales and industrial production all fell in March with supply chain disruptions and Russia's invasion cited as important factors.

Japan

Stocks rose modestly, despite the volatility in markets as a result of the Federal Reserve raising its interest rates. The yen continued to weaken during the week, lending support to Japanese exporters by boosting the value of their overseas earnings. Inflation has risen sharply to 1.9% in April, with The Bank of Japan saying that a significant rise in energy prices was pushing inflation upwards, but that the increase would likely be temporary.

China

Markets fell as Beijing showed no sign of relaxing its zero-tolerance approach to the coronavirus, raising worries about the economic cost of widespread lockdowns. Shanghai remains under varying degrees of lockdown even though the city started to ease restrictions as infections have declined. Beijing announced increased restrictions in response to a growing outbreak. In a sign of how the virus restrictions have hit domestic consumption, spending over China's five-day Labour Day holiday plummeted 43% from a year earlier.

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