



CENTRAL BANKS SPARK EXTREME VOLATILITY AND POINT TO THE CHALLENGES AHEAD

This week has been dominated by central banks, as the US Federal Reserve announced a 0.5% rate hike followed by the Bank of England confirming a 0.25% raise. Both announcements, though widely expected, sent markets into a frenzy – US equities rallied 3% on the merest hint that the Fed might be softening its stance. In the UK, government bonds moved violently following Governor Bailey's warning there might be a recession. In both cases markets ended up back where they started the following day.

Headlines from the week included estimates that inflation in the UK might top 10% before receding. While this sounds extreme, it needs to be seen in the context of extreme events. Central banks and governments acted in an unprecedented fashion during the pandemic and managed to avoid what would have been a large-scale depression. The challenge now is for governments to alleviate the cost-of-living crisis and for policy makers to ensure high inflation becomes temporary. If achieved we'll have witnessed an extraordinarily successful period of crisis management.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-0.55%	+0.36%	-0.11%	-1.99%	-5.16%	+0.18%	+0.05%	+3.51%	+0.42%	+1.64%	-1.45%

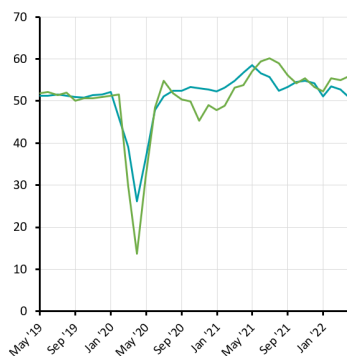


INTEREST RATES: CENTRAL BANKS DELIVER EXPECTED RATE HIKES

The Bank of England and US Federal Reserve raised interest rates as they take further steps to deal with rising inflation. The BoE raised rates by 0.25% to 1% while the Fed implemented its first 0.5% interest rate hike since 2000, raising rates to 1%. Fed Chairman Jerome Powell indicated that similar moves are likely for upcoming meetings but dismissed speculation of a 0.75% increase. Other central banks have also increased rates. The Reserve Bank of Australia raised rates for the first time in 11 years to 0.25% and the Reserve Bank of India also hiked rates as they seek to tackle inflation. The European Central Bank also appears more open to raising rates in the coming months.

Despite the rate rises coming in as expected there was a lot of volatility following the decisions, with US growth stocks and UK gilts seeing the biggest moves, although most markets have ended the week little changed overall. The biggest movement was seen in sterling as it declined to a 2-year low and fell 2% against the US dollar.

Global Output PMI Composite and Eurozone Output PMI Composite



GLOBAL: ACTIVITY IS ROBUST BUT RISKS OF A SLOWDOWN ARE RISING

Following the Bank of England's interest rate meeting, Governor Andrew Bailey warned that the UK faces a rising risk of recession as measures to curb inflation risk slowing the economy. The economic backdrop for the UK and most of the developed world is mixed. Many countries have very low unemployment rates and are recording economic growth. In the Eurozone, for example, the unemployment rate has fallen to its lowest ever at 6.8% and economic output is expanding, but retail sales and consumer confidence are falling.

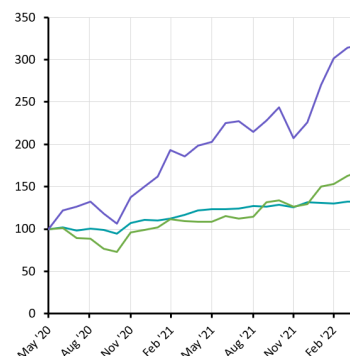
Elsewhere, there are growing headwinds to growth. The Global Composite PMI figure remains positive – anything over 50 indicates expansion – but it has fallen to its lowest level in almost two years. One of the biggest drags on global growth is the decline in output from China which has seen services and manufacturing fall sharply as the government continues with its zero Covid policy.

EQUITIES: EU EYES RUSSIAN OIL BAN AS BIG ENERGY REAPS THE BENEFIT

The European Union proposed a ban on Russian crude oil as it looks to significantly increase economic sanctions. The ban would see imports stop in six months and refined products by the end of the year to give countries time to transition. Hungary, Slovakia and Czech Republic are particularly reliant on Russian oil and Hungary, in particular, appears the biggest obstacle to the plan. The price of oil has risen this week, aided by OPEC's decision to stick with its plan to gradually raise production, but it remains within the range it has traded in since the initial shock of the invasion wore off.

Energy companies continue to benefit from elevated prices as BP and Shell both announced record profits. BP reported underlying profits for the first three months of the year more than doubled to \$6bn, despite the loss it will incur from selling its stake in Russian oil firm Rosneft. Shell reported adjusted earnings of \$9.1bn up from \$3.2bn in 2021. The strong performance means the energy sector is one of the best performing UK sectors this year.

FTSE Allshare, FTSE Allshare Energy, and Brent Crude (Normalised % change)



Data Sourced from FE Analytics, and FactSet

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