US FED RATE HIKE SEES EQUITIES AND GOVERNMENT BONDS RALLY AS OUTLOOK DETERIORATES

This week we saw the US enter a recession that is not yet a recession. US GDP unexpectedly shrank in the second quarter by 0.9%, after falling 1.6% in the first three months of the year. Two quarters of declining GDP is usually enough to qualify as a recession, but for the US economy to officially qualify needs a ruling by the National Bureau of Economic Research. If it walks like a duck and quacks like a duck then we'll have to check with our experts and get back to you. There are some positives to take from the US as the jobs market remains strong and consumer spending is robust. However, the strong rally in US equities and government bonds this week suggests that a full-blown recession and a reversal of Fed policy is becoming the consensus view of markets, even if may take a while for the experts to concur.

Elsewhere, China's leaders failed to come up with any new policies to deal with the country's growing problems. Covid, slow economic growth and a struggling property market are just some of the issues that face China as President Xi lines up a historic third term as president this autumn.

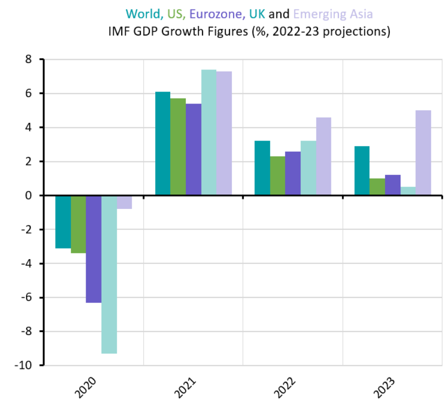
THE MARKETS THIS WEEK

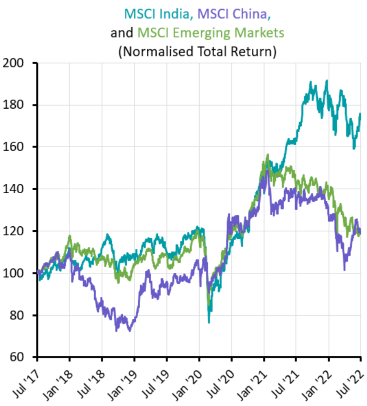
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
+0.95%	+2.80%	-0.36%	+1.08%	-2.31%	-0.11%	-0.08%	-1.32%	+0.26%	+15.66%	+0.73%

US: FEDERAL RESERVE MAINTAINS AGGRESSIVE APPROACH TO INFLATION

The US Federal Reserve raised rates by 0.75% for the second month in a row as it continues to take steps to tackle rising prices. Although the US jobs market remains strong there are some signs that the economy is beginning to slow and the US has just entered a technical recession as GDP fell in the second quarter of the year. US equities and government bonds both rallied strongly after the decision was announced. Fed chair Jerome Powell indicated he expects rates to increase by 0.75% at the next meeting in September before potentially moderating the rate of increase depending on economic data.

The International Monetary Fund warned that the global economy is teetering on the edge of a recession, with war in Ukraine, Covid and inflation among the risks. The yield on short-dated US and UK government bonds remains higher than the yield on longer-dated bonds, which suggests that markets are much more certain about a slowdown and that it will be severe enough for central banks to begin unwinding their recent rate hikes.





CHINA: ECONOMIC WOES STACK UP AS XI EYES THIRD TERM AS PRESIDENT

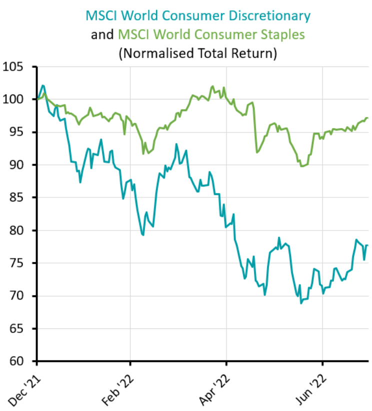
China is facing growing problems as the country falls behind its target of 5.5% growth in GDP this year. Perhaps the biggest issue is the country's embattled property sector which is mired in debt. The central bank is preparing to raise $148bn of funding to kickstart the construction of millions of unfinished homes. Sales and new mortgage applications have fallen sharply and a rising number of people have stopped paying mortgages on unfinished properties.

Chinese consumer borrowing has slowed sharply, while youth unemployment hit a record high of almost 20%. Covid also remains a problem. This week the Politburo, China's top decision-making body, backed President Xi's zero Covid policy but fresh outbreaks remain a threat to growth. Unlike its last meeting, the Politburo made no explicit mention of China's official growth target as economic issues were downplayed in advance of the Party Congress this autumn where Xi will seek an unprecedented third term as president.

EQUITIES: INFLATION A DRAG FOR COMPANIES UNABLE TO PASS ON COSTS

Shares in US retailer Walmart fell sharply after it issued a second profit warning in 10 weeks. The company said revenue will fall as it is forced to cut prices to offload stock as it over ordered after being caught with too little stock as it emerged from Covid restrictions. Other companies which are unable to pass on price increases are feeling the effect. In the UK, fashion retailer Asos, medical equipment maker Smith & Nephew and FeverTree have all recently warned that falling margins will impact on profits.

Meanwhile companies which are able to pass on cost increases are increasingly doing so. This week McDonalds announced an increase of up to 20% on some items and Amazon has increased the cost of its Prime next-day delivery service by an average of 31% in its main European markets. Both companies reported rising prices are having little impact on sales. Unilever reported that its premium brands have allowed it to increase prices by an average of 11% without harming sales volumes.



Data Sourced from FE Analytics, the IMF and FactSet