

### TENS OF THOUSANDS TURN OUT TO PAY LAST RESPECTS TO QUEEN ELIZABETH II

This week the nation continues to mourn the passing of Queen Elizabeth II. In a fitting tribute, the British public has chosen to honour one treasured national institution with another, a queue. The 11-hour line to pay homage to the Queen has attracted people from all corners of the country and all walks of life highlighting what a unifying figure she has been. The new monarch King Charles III is continuing in that vein, instantly getting people on side after losing it with a leaky pen.

Elsewhere, while the royal funeral is, of course, the focus, there is work to be done for the new government as it released details of its pro-growth agenda. So far eliminating the cap on banking bonuses has gathered the most attention but the government will need more than that to head off a recession. Plummeting retail sales figures are extremely ominous, but stubbornly high inflation, little moved this week despite falling petrol prices, mean no help will be coming from the Bank of England any time soon.

### THE MARKETS THIS WEEK

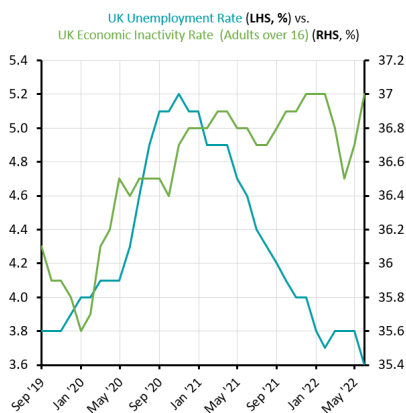
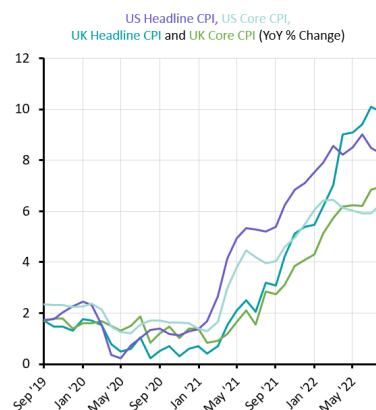
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-0.94%	-4.08%	-1.20%	-1.25%	-3.10%	+0.14%	+0.05%	-2.49%	-0.82%	+1.33%	-0.79%



### INFLATION: MARKETS RATTLED BY RISING PRICES IN THE US

The US inflation update caused the biggest one day fall in US equities since the beginning of the Covid pandemic. The US Consumer Price Index increased by 0.1% for the year to September, surprising investors who had been expecting a small reduction. The cost of petrol did fall but the benefit was offset by a substantial increase in core inflation. UK CPI dropped to 9.9% for the year to August, down from 10.1%. While petrol fell sharply, this was mostly offset by rising food prices.

The rise in US core inflation meant investors concluded that the US Federal Reserve will act more aggressively to tackle inflation that is broadening out. The potential for a 1% rate hike at next week's interest rate meeting caused the S&P 500 to fall more than 4%, with tech stocks falling further, as yields on short-dated US Treasuries jumped. Next week also sees the delayed Bank of England interest rate decision and markets are expecting a large increase of 0.5% or even 0.75%.



### UK: GDP AND EMPLOYMENT DATA MASK A DETERIORATING OUTLOOK

An improvement in monthly GDP and falling unemployment masks a deterioration in the outlook for the UK. Data out this week shows GDP grew by 0.2% in July, after falling 0.6% in June, but this monthly figure appears to be a technical correction after the additional bank holidays in June and one off factors like the Women's Euros football championship and the Commonwealth Games. The UK's employment data is also deceptive. The drop in unemployment to 3.6% is an all time-low, but the change appears mostly due to people leaving the workforce – either through ill-health or to study.

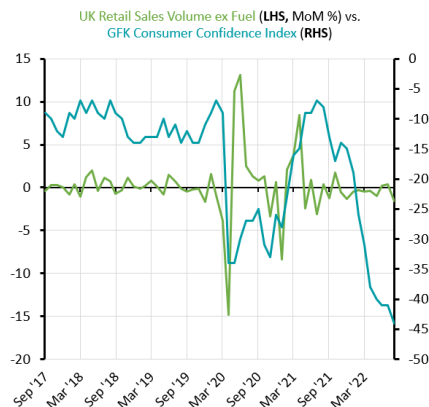
This week's trade data was unambiguous as the trade deficit grew to the highest on record. A large part of the deterioration was due to the skyhigh cost of imported energy (mainly gas from Europe) but the volume of goods exports has also fallen. This is despite sterling falling in value against the dollar and euro as this should make UK exports more competitive.



### RETAIL: CONSUMERS FEEL THE SQUEEZE AS COSTS RISE

Retail sales fell more than expected as consumers feel the effect of the rising cost of living. The Office for National Statistics said retail sales volumes fell 1.6% in August, continuing the steady decline since last summer. In store shopping, online, food and fuel all fell. The decline in consumer activity is backed up by some of the ONS's real time data which shows a falling number of people eating in restaurants and debit card spending declining in retail, leisure and travel sectors.

Trading updates from John Lewis, Ocado, THG and FeverTree all reported the effects of rising costs and lower consumer spending. THG (formerly The Hut Group) revised its sales and profits forecast as it said rising interest rates and higher energy bills hit demand while Ocado said it expects annual grocery sales to decline for the first time as consumers opt for cheaper items. John Lewis warned staff not to expect bonuses this year as higher costs and lower spending from customers caused losses in the first half of the year to widen.



Data Sourced from FE Analytics and FactSet

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