

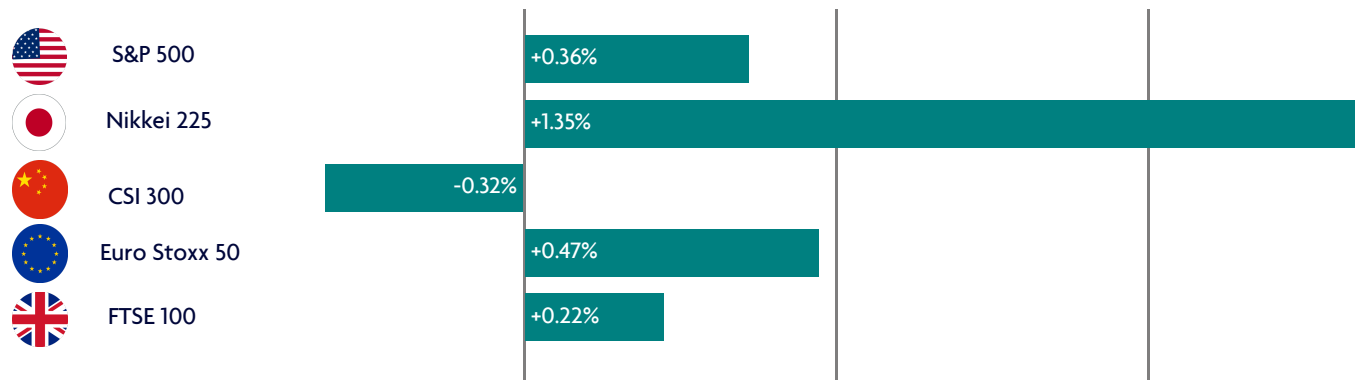
# Weekly Market Update

8 August 2022

It was the Bank of England's turn this week to raise interest rates aggressively, following aggressive hikes by the European Central Bank and the Federal Reserve in recent weeks. Strong jobs data coming out of the US suggests that central banks may have to continue their aggressive hikes. Tensions between US and China escalated last week weighing on investor sentiment.



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



## Market Update:



The Bank of England raised its key interest rate by 0.50% points to 1.75%, the biggest increase in 27 years. It also projected that inflation would hit 13% by October because of surging energy prices. The central bank expects inflation to remain "very elevated" through 2023 and to recede in two years' time to its 2% target. It also forecast that a recession would begin this winter. More thoughts on last week's interest rate hike can be found [here](#).



A much stronger-than-expected jobs report revived investor concerns that the Federal Reserve will need to maintain an aggressive pace of interest rate hikes to tamp down high inflation. The unemployment rate in the US dropped to 3.5% matching the February 2020 level and July saw much higher growth in jobs than many had anticipated. Despite these concerns, equity markets had some support from earnings reports from companies, which showed more robust earnings than had been expected.



Europe

Shares weakened on expectations that central banks would continue to raise interest rates aggressively in a bid to smother inflation. The number of unemployed people rose in the eurozone for the first time in 14 months in June. The eurozone manufacturing sector saw the sharpest decline in production since the initial wave of COVID-19 lockdowns in spring 2020. German manufacturing activity contracted in July for the first time in two years, as new orders dropped, and firms grew increasingly pessimistic about the outlook.



Japan

Corporate earnings from domestic companies boosted investor sentiment, but concerns about tensions between China and the US limited returns. Export-oriented Japanese firms continued to benefit from a weak yen. Recent data however, signalled that activity in the private sector flattened in July and looking forwards many corporates remain cautious, citing concerns about muted economic conditions, inflation, a weak yen, and the war in Ukraine.



China

Stock markets fell somewhat as geopolitical tensions, mortgage boycotts, and tepid economic data kept buyers on the sidelines. U.S. House of Representatives Speaker Nancy Pelosi's trip to Taiwan infuriated Beijing, which held live-fire drills in the waters around the self-ruled island and imposed sanctions on Pelosi and her immediate family. On the economy front, data continues to signal a slowing down in business activity across the board. New home prices and sales volume fell in July as a growing nationwide movement among homebuyers to stop paying mortgages on unfinished projects weighed on sentiment.



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