

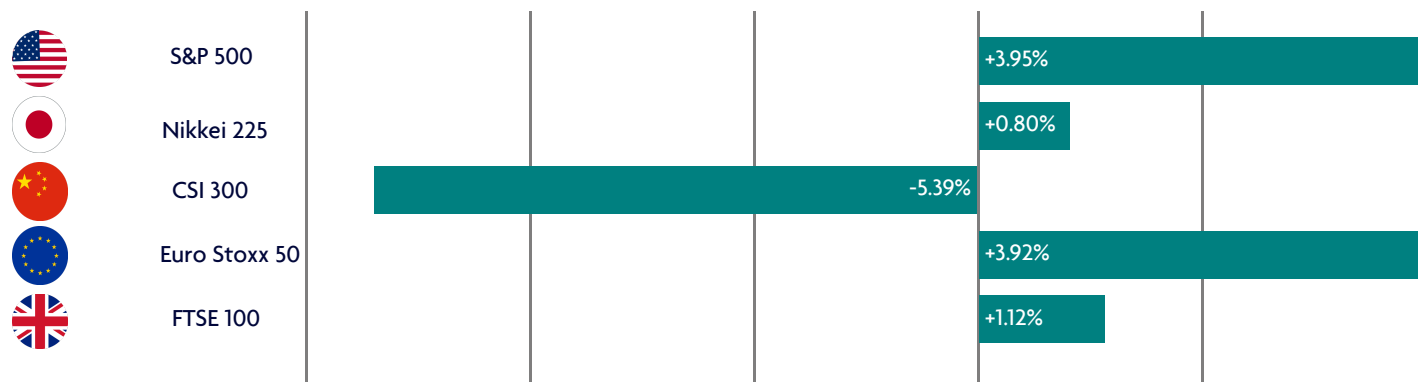
# Weekly Market Update

31 October 2022

Broadly speaking, markets had a strong week with continued focus on what central banks around the world are likely to do going forwards. Markets are expecting interest rate hikes to become smaller in size going forwards. In the UK, a new Prime Minister focused on fiscal discipline appears to have calmed markets.



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



## Market Update:



UK

Rishi Sunak replaced outgoing Prime Minister Liz Truss and has already calmed markets on promises of fiscal discipline, with yields on UK government bonds stabilising this week following the turbulence of September's mini-budget. On the economic side, Business activity in the UK shrank for a third consecutive month in October.



US

Overall markets rose sharply, but we saw a big divergence between different stocks. Investors reacted to a busy calendar of companies reporting their financial results for the period of July to September. Energy stocks did better than the big technology stocks, where the likes of Microsoft, Amazon, Alphabet and Meta Platforms (Facebook) fell sharply following earnings misses and lowered outlooks. Hopes that the Federal Reserve might slow its pace of rate increases seemed to be a driver of positive sentiment. Worries that the Fed's aggressive rate hikes and the consequent steep rise in the U.S. dollar might spark instability in the global financial system have led to speculation that the Fed might soon dial back its pace of rate hikes.



Europe

The European Central Bank raised its key interest rates for a second consecutive time by 0.75 percentage point and said it may have to raise them further to curb inflation that is still "far too high." The deposit rate now stands at 1.5%, its highest level since 2009. However, markets reduced their bets on higher rates on hints in the statement that the European Central Bank's approach may have begun to shift and that the size of the next interest rate hike could be smaller. On the economic side, Business activity in the eurozone contracted for a fourth month running in October, indicating that the economy is likely entering a recession.



Japan

Markets rose early in the week, amid hopes that the U.S. central bank may rise interest rates less aggressively than previously anticipated. Later in the week, however, markets lost some ground as investors digested domestic earnings reports and the announcement by Prime Minister Kishida of a JPY 20 trillion (£170 billion) in fresh spending to ease the impact on consumers of soaring commodity prices and a falling yen. On the economic front, Japan's manufacturing sector continued to expand in October. The Bank of Japan announced that it would hold interest rates at ultra-low levels.



China

China's stock markets fell as investor sentiment was dampened by new COVID-related lockdowns in several parts of China. Several Chinese cities doubled down on COVID-19 curbs after the country reported three straight days of more than 1,000 new cases nationwide. Data also showed that profits at China's industrial firms declined at a faster pace in September. Worries about China's economy growth also rattled investors despite the economy expanding 3.9% in July-September from a year earlier, and considerably faster than the growth in the second quarter of 2022.



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