

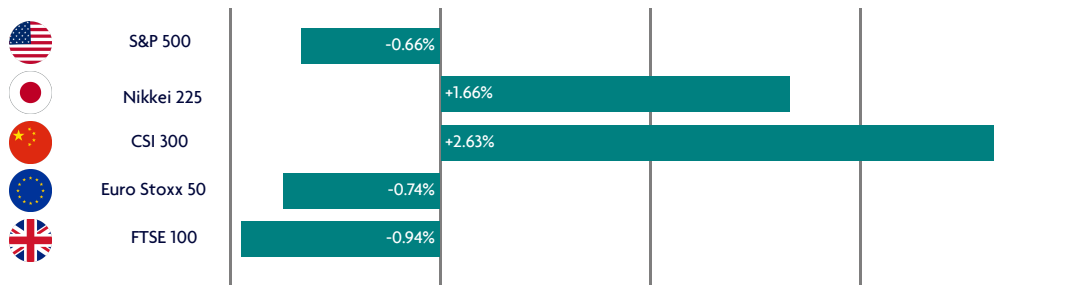
Weekly Market Update

23 January 2023

Recession concerns come back to the forefront, dampening investor sentiment, and breaking the 2023 market gains for Western economies. Over in Asia, demand was boosted by better-than expected data coming out of China.



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



Market Update:



UK

Inflation slowed down in December for a second consecutive month to 10.5%. On one hand lower petrol prices helped bring prices down, but the labour market continues to remain strong, with unemployment at a record low. The Governor of the Bank of England said that slowing inflation could be the beginning of a sign that things are changing. Markets are still expecting interest rates to continue rising to 4.5%. Meanwhile the Bank of England has said that a long, but shallow recession is still expected in the UK.



US

Worries about recession outweighed any relief that existed from signs that inflation was falling. Retail sales dropped 1.1% in December as Americans pulled back from non-essential purchases and a slowdown in sales at petrol stations. Industrial production also dropped sharply in December indicating a slowdown in the manufacturing sector.



Europe

Markets weakened after the European Central Bank signalled that they would continue to hike interest rates as much as necessary, re-igniting fears of a prolonged economic slowdown. There had been speculation that a fall in energy prices (and therefore a drop in inflation) could allow the central bank to slow interest rate hikes. Christine Lagarde, the president of the European Central Bank, has dismissed claims, saying that inflation is still way too high.



Japan

Investor sentiment was uplifted by the prospect of China's reopening, boosting the global economy and hopes that the major central banks would slow the pace of their interest rate hikes as inflation continues to cool. The Bank of Japan keeps its ultra-low interest rate policies in place, but suggested that inflation could continue rising in the coming months.



China

The Chinese economy grew 3% in 2022, missing the official target of 5.5% and marking the second worst year of economic growth since 1976 (the worst was 2020). However, the economy grew more than expected in the final three months of 2022 after the government reversed its zero-covid policies, paving the way for a recovery in the Chinese economy in 2023 as Covid infections decline and domestic demand improves.



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