

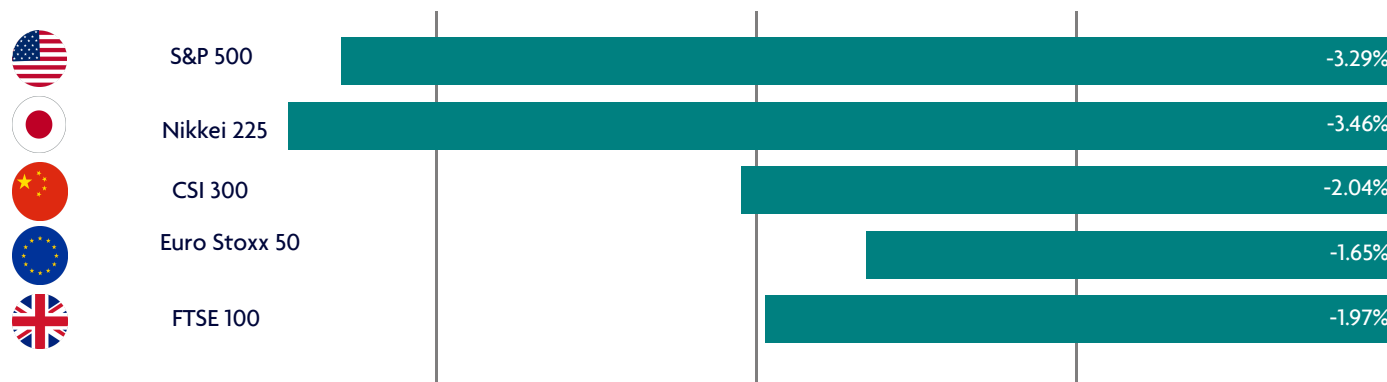
# Weekly Market Update

5 September 2022

Markets continued to digest the implications of aggressive interest rate hikes by global central banks, led by the US Federal Reserve. Meanwhile, Japan's Yen plummets to a multi-decade low and China faces further economic turmoil as Covid-19 cases spike. Inflation in Europe accelerates and, in the UK, Sterling plummets amid economic and political uncertainty.



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



### Market Update:



The UK pound posted its steepest monthly drop versus the U.S. dollar since October 2016, three months after the Brexit referendum, as economic and political uncertainty in the country intensified during the ruling Conservative party's election campaign to replace outgoing Prime Minister Boris Johnson. The currency's tumble reflects the deteriorating outlook for Britain's economy as the energy crisis deals a powerful blow to businesses and consumers. The new prime minister, set to be named today, could bring further uncertainty as they set new fiscal priorities.



Investors continued to digest the implications of aggressive interest rate hikes by The Federal Reserve, 'The Fed'. The previous week, the Chair of the Fed, Jeremy Powell, gave a speech that was widely perceived as hawkish (which means continuing to raise interest rates aggressively). On the economic front, the US economy added 315,000 jobs in August and the unemployment rate increased to 3.7%, showing that the growth in jobs is slowing and this could in turn take some of the pressure off the Fed.



### Europe

Fears that central banks could tighten monetary policy aggressively for an extended period drove markets down. Worries that Russia might stop natural gas supplies to Europe also weighed on sentiment. Inflation in the euro area accelerated more than expected to 9.1% in August, with energy and food prices clearly being key drivers. It is widely expected that the European Central Bank will raise interest rates aggressively at its next meeting. Russia's state-owned energy company Gazprom said that a technical fault on the Nord Stream 1 pipeline would mean the pipeline would remain closed, creating further problems for Europe as we approach winter.



### Japan

A hawkish outlook on U.S. interest rates dampened investor sentiment during the week. The Japanese currency has fallen to its lowest level since 1998. A weak yen is good for Japan's competitiveness and good for its exporters but is pushing up the cost of importing energy and food, which is burdening businesses and households. The government has said it will introduce new measures to cushion the impact of rising food and energy prices.



### China

Coronavirus outbreaks in major cities triggered renewed lockdowns and dampened the economic outlook. It is estimated that 41 Chinese cities are grappling with coronavirus outbreaks. Economic data shows a slowing down of the Chinese economy, in large reflecting nationwide power shortages, the challenges in the property sector and Covid-related lockdowns. China is said to have room to adjust its policies to support its economy, with some actions already taken but clearly many are watching what these support measures could look like and the impact it may have on the economy.



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