Brewin Dolphin

Markets in a Minute

28 March 2023

Stock markets shrug off banking sector woes

Stock markets ended last week in the green as hopes of interest rate cuts outweighed recent concerns about the banking sector.

In the US, the S&P 500 and the Nasdaq added 1.4% and 1.7%, respectively, as the Federal Reserve hiked interest rates in line with expectations. The Fed's 'dot plot' – a chart which summarises the central bank's outlook for interest rates – suggested officials expect to stop raising rates after one more hike in May.

The FTSE 100 added 1.0% after UK retail sales recorded their largest monthly gain since October and business activity expanded for a second consecutive month, demonstrating resilience in the UK economy.

The pan-European Stoxx 600 gained 0.9%, despite a sharp decline in banking stocks. Eurozone business activity was stronger than expected in March, driven by growth in the services sector.

In Asia, China's Shanghai Composite edged up 0.5% and the Hang Seng climbed 2.0% as analysts predicted policymakers would maintain an accommodative monetary policy in light of the banking sector turmoil.

Last week's market update*

- FTSE 100: +0.95%
- S&P 500: +1.39%
- Dow: +1.18%
- Nasdaq: +1.66%
- Dax: +1.28%
- Hang Seng: +2.03%
- Shanghai Composite: +0.46%
- Nikkei 225: +0.19%
- Stoxx 600: +0.87%
- MSCI EM ex Asia: +1.98%

* Data from close of business Friday 17 March to close of business Friday 24 March

Investors cheered by Silicon Valley Bank deal

Stocks started this week in the green, with the FTSE 100, Stoxx 600 and S&P 500 gaining 0.9%, 1.1% and 0.2%, respectively, on Monday (27 March). Banking stocks, in particular, were boosted by news that First Citizens Bank had agreed to buy the deposits and loans of Silicon Valley Bank, the US regional bank which collapsed earlier in the month. There are hopes that the turmoil in the banking sector has now peaked.

In economic news, a survey by the Ifo Institute showed German business sentiment unexpectedly improved in March. The business climate index rose to 93.3 from 91.1 in February, marking the fifth-consecutive monthly increase.

Fed suggests rate hikes are nearing an end

Last week, the Federal Reserve pressed ahead with a quarter percentage point increase in interest rates – its ninth-consecutive rate hike since March 2022. As ever, investors were more interested in the Federal Open Market Committee's (FOMC) post-meeting statement than the rate hike itself, which had been widely anticipated.

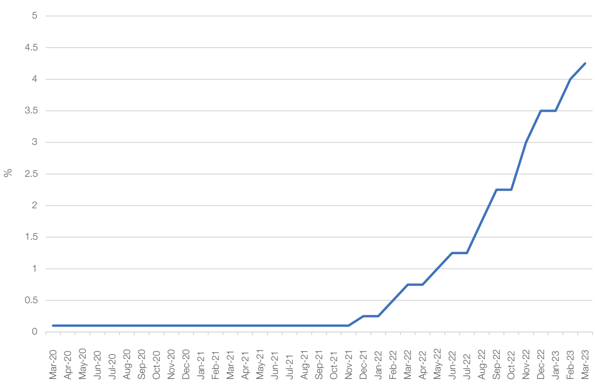
Unlike previous statements which referred to "ongoing increases" in interest rates to bring down inflation, this latest statement said that "some additional policy firming" may be appropriate. Projections indicated that a majority of officials expect only one further rate hike this year.

Fed chair Jerome Powell said the FOMC had considered a pause in rate hikes because of the troubles in the banking sector, but went ahead with the increase due to inflation data and the strength of the labour market. Powell also stated that rate cuts were not in the Fed's base case for the remainder of 2023. However, futures markets are nonetheless pricing in a more than 90% chance that rates will end the year lower than the current Federal funds target rate of 4.75% to 5.0%, according to the CME FedWatch Tool.

BoE lifts UK base rate as inflation soars

The Bank of England (BoE) also increased interest rates by a quarter of a percentage point last week, marking its 11th consecutive rate hike. The increase has brought the base rate to 4.25%.

UK base interest rate



Source: Refinitiv Datastream

The BoE's meeting came a day after figures from the Office for National Statistics (ONS) showed the rate of inflation unexpectedly accelerated in February to 10.4% year-on-year, up from 10.1% in January. Economists had been expecting the rate to decline to 9.9%. Prices of food and non-alcohol drink rose by 18.2%, the steepest pace in more than 45 years, as high energy costs and bad weather led to shortages of salads and vegetables.

Data indicates UK economic resilience

Other data released last week suggested the UK economy may be more resilient than previously thought, despite high inflation and borrowing costs. Retail sales volumes rose by 1.2% in February from the previous month, with sales returning to their pre-pandemic levels. The increase was well above the 0.5% rise forecast by analysts.

S&P Global's flash UK purchasing managers' index (PMI) showed business activity expanded for a second consecutive month in March. The main composite output index measured 52.2, down from February's eight-month high of 53.1 but still comfortably above the 50.0 mark that separates growth from contraction. Manufacturing production decreased slightly, whereas services sector activity picked up for the second month running.

Chris Williamson, chief business economist at S&P Global Market Intelligence, said the UK economy looks to have returned to growth in the first quarter, and that the improvement in order book growth "adds to signs that a near-term recession has been avoided".

Meanwhile, research company GfK's consumer confidence index rose two points in March to -36. Within that, consumers were more positive about the general economic situation over the next 12 months. However, they were more pessimistic about their personal financial situation – a measure which Joe Staton, client strategy director at GfK, said "best reflects the financial pulse of the nation".

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