SEASPRAY PRIVATE
Creating Investment Solutions

Monday
03.07.2023

Weekly Investment Review

Financial Headlines

United States

In the US last week, the Federal Reserve's annual stress test indicated that American banks would lose around $541bn in a doomsday scenario, but critically would still have enough capital to absorb these loses. The Fed's passing grade has bolstered confidence in banks such as JP Morgan Chase and Goldman Sachs, as this result will determine how much capital these banks must hold in the next 12 months. This means that if banks such as Goldman Sachs match or hold more capital then required by the Fed, they are free from the restrictions of the Fed on how much capital they can put towards the payment of dividends and share buyouts. There is now expectations that there will be higher dividends amongst the biggest banks in America, as well as more share buyback schemes. This result comes mere months after the collapse of Silicon Valley Bank and First Republic, and is a sign that there is still strength in the larger US lenders.

Europe & UK

In Europe last week, Spain announced that its inflation fell to a level of 1.6 per cent, which is below the ECB's 2 per cent target. This is the first of the EUs larger economies to fall below the required level set by the ECB. This figure comes after a remarkable fall in inflation between May and June, with inflation of 2.9 per cent recorded in May. This fall is due to a fall in fuel, electricity and drinks prices. Much of the reason for Spain's lower inflation rate compared to other large EU economies like Italy and Germany is due to its energy dependence. Spain does not rely on Russian natural gas like Germany and generates significant amounts of energy from wind and solar. While this news is positive, the socialist Spanish government under Pedro Sanchez is trailing behind in poles, as a snap election approaches next month.

Ireland

Last week the Irish government sold another 5% of its stake in Allied Irish Bank, which brings the governments total shareholding in the bank to below 50% for the first time since the financial crisis. The deal will mean a return of €480.5m for the exchequer, with the governments total return from its ownership of AIB now totaling €13bn. The state still holds about 47% of AIB's total shareholding, equating to €4.7bn, with the Minister for Finance Michael McGrath stating that they will continue to assess additional opportunities for share sales as they arise.

Asia-Pacific

In Asia last week, an investment fund backed by the Japanese Government made the decision to buy out a semiconductor chip company, in a deal worth an estimated $6.4bn. JSR, one of the leading semiconductor companies in the country, announced the deal last week following a board meeting last week. The buyer is the Japanese Investment Corporation, which is backed by the Ministry of Economy, Trade and Industry. The move comes as Japan and its government try to protect one of its most valuable industries and help it grow with government help.

Market Movers

Equity Indices	Value	Weekly Change	YTD Change
S&P 500	4,450.38	2.29%	14.07%
NASDAQ	13,787.92	2.14%	24.67%
EuroStoxx	4,399.09	2.90%	12.34%
FTSE	7,531.53	0.92%	-0.30%
ISEQ	8,723.11	2.83%	18.51%

Interest Rate	Current Rate	Direction	Rate Change
FED	5.25%	↔	0
ECB	4%	↑	+0.25
BOE	5.00%	↑	+0.50

Fixed Income	Yield	Weekly Change	YTD Change
US 10YR	3.841	2.71%	-0.99%
US 2YR	4.904	3.14%	9.75%
German 10YR	2.393	1.25%	-2.09%
UK 10YR	4.43	1.31%	17.54%
Irish 10YR	2.812	2.24%	-6.08%

FX	Value	Weekly Change	YTD Change
EUR/USD	1.091	0.14%	3.56%
EUR/GBP	0.8541	-0.29%	-3.62%
GBP/USD	1.2694	-0.16%	5.11%

Asset Class Review

SEASPRAY PRIVATE
Creating Investment Solutions

Equities

Equities had a poor start to the week, as investors were wary of upcoming US economic data. However due to a string of positive economic results released on Monday afternoon, such as better then forecasted building permit and new home sales as well as increased consumer confidence, US equities increased. As the week progressed indices were slightly rocked by the Central bank conference in Portugal, where Fed Chair Jerome Powell along with ECB and BoE chiefs Christine Lagarde and Andrew Bailey took centre stage. The sentiment out of Portugal was similar in tone to everything which has already been said previously that rates will stay higher for longer to combat high inflation. However, while these speeches did dampen indices midweek, the positive result of the stress test conducted by the Federal Reserve on US banks sent banking shares higher leading to a strong Thursday and Friday. By Friday, the S&P500 was on course for a higher close then the previous week along with the NASDAQ.

In Europe, with Eurozone inflation falling to a rate of 5.5% in June, along with positive earnings from fashion giant H&M and the positive inflation data which emerged from Spain earlier in the week EU indices had an overall positive week.

Bonds

In the bond market, yields on US treasury bonds reached their highest level for more then three months on Thursday, due to the strong economic data that emerged from the US during the week. This means that the Fed will have to raise rates further to bring down steep inflation. The data pertained to GDP data, which came in at an annualised pace of 2% for the first three months of 2023. US 10 Year yields finished at 3.841, while the 2 year yield finished at 4.904. In Europe, bond yields also finished the week higher, also boosted by positive economic data out of the EU. German 10 Year bond yields closed at 2.393, while the UK 10 year closed at 4.43. Finally, the Irish 10 year bond closed at a yield of 2.812.

Commodities

Commodities has a mixed week, depending on the asset class. Gold had a poor showing once again, with a lower overall week due to Jerome Powell's signal that there may be two more interest rate rises in the US. If interest rates increase, the cost of holding a gold bullion increase. Gold is now at a three month low, closing the week at a price of $1,927.80.

Oil meanwhile had a positive start to the week, predominantly due to the apparent coup attempt in Russia last weekend. Prices fell slightly due to the comments of Jerome Powell around interest rates, before rising almost 3% midweek due to the US huge drawdown in crude oil inventories. Prices have now stabilised, and Oil is on course for a positive week, with Brent Crude closing at 75.19 while WTI closing at $70.45.

Key Events

- 03/07/2023 – EU Manufacturing PMI's
- 03/07/2023 – UK Manufacturing PMI's
- 06/07/2023 – US Crude Inventories

Podcast of the Week

Seaspray Private now has a podcast! This is a quarterly in-depth discussion on investment markets, delivering our expert insight and creating investment solutions for clients. You can listen to it wherever you get your podcasts. Link below:

https://seasprayprivate.ie/making-waves-podcast/