SEASPRAY PRIVATE
Creating Investment Solutions

Monday
17.07.2023

Weekly Investment Review

Financial Headlines

United States

In the US last week, inflation has finally begun to slow as headline inflation slowed to a rate of 3 per cent for the month of June. This is the slowest rate of inflation since March 2021. While the headline rate of inflation has slowed, core inflation, which strips away volatile energy and food costs is still at a rate of 4.8 per cent for June. Core inflation did also slow in June, from a rate of 5.3 per cent to a rate of 4.8 per cent. What these figures suggest is that the Federal Reserve intense tightening process is beginning to take effect on the US economy. There is now hope that the Fed will end its tightening cycle towards the end of 2023, with rate cuts to commence in early 2024.

Europe & UK

In the UK last week, the Bank of England stress test on the top eight British banks found that in the event of an economic crisis, lenders would be resilient. The results of the stress test found that the big eight in the UK would be able to operate under a much worse economic environment then the current one, based on a scenario set out in September 2022. The quantitative data indicated that that banks would face aggregated loan losses of £125bn over a five-year period from June 2022. This would lower their common equity tier one ratio from 14.2 per cent to 10.8 per cent. The passing grade for common equity tier one ratio is 6.9 per cent. The news was welcomed by investors, as major UK banks such as Barclays, HSBC, Natwest and Lloyds all posted gains of between 1 and 2 per cent on Wednesday.

Ireland

In Ireland last week, the annual rate of inflation fell to 6.1 per cent, from a level of 6.6 per cent in the 12 months at the end of May. According to the Central Statistics Office, this is the twenty first straight month where the annual rate of inflation has been at least 5 per cent. However, since February 2023 the annual rate of inflation has fallen from 8.5 per cent to 6.1 per cent. Core inflation, which strips out volatile food and energy, rose to 7.1% in June from 6.8% in May. This is a common theme, with many countries struggling to bring core inflation down.

Asia-Pacific

China reported poor export data on Thursday last week, with the biggest year on year decline in exports since the start of the COVID-19 pandemic. Exports in June fell by 12.4 per cent year on year in dollar terms. This was far higher than Reuters analysts figure of 9.5 per cent. These figures, along with a multitude of other problems has pushed China to the brink of deflation while the western world struggles to get inflation under control. The country has experienced a lackluster year so far in terms of growth after reopening its doors after COVID-19, along with record youth employment since China started releasing figures. The country must now rely on domestic demand more and hope that domestic demand will increase without the need for stimulus.

Market Movers

Equity Indices	Value	Weekly Change	YTD Change
S&P 500	4,505.42	2.36%	15.12%
NASDAQ	14,113.70	3.21%	26.40%
EuroStoxx	4,400.11	3.72%	12.36%
FTSE	7,434.57	2.39%	-1.61%
ISEQ	8,891.83	4.72%	20.05%

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	3.83	-6.16%	-1.28%
US 2YR	4.768	-3.82%	7.18%
German 10YR	2.477	-6.40%	1.37%
UK 10YR	4.447	-5.64%	17.85%
Irish 10YR	2.926	-4.41%	-1.95%

FX	Value	Weekly Change	YTD Change
EUR/USD	1.1227	2.32%	6.28%
EUR/GBP	0.8574	0.36%	-3.22%
GBP/USD	1.3086	1.91%	7.96%

Asset Class Review

Equities

Equities begun last week higher, as investors awaited US inflation data that was to be released on Wednesday. After the release of the inflation data, which saw US inflation slow to 6.1 per cent in June, major equity indices responded with a positive close on Wednesday and continued their gains into Thursday. The rally benefitted tech stocks mostly, as the tech heavy S&P 500 was up over 1.3 per cent at close of business on Wednesday. Tech stocks tend to be more sensitive to higher interest rates. On Thursday, it was announced that the S&P 500 Information Technology sector index outperformed the S&P 500 index by 26% over the past six months up to June 30th. In general, it was a positive week for tech stocks. Along with the inflation data, US Producer Price Index data was also released later last week. The PPI grew at a rate of 0.1%, lower then expected. This is a further sign that inflation in the US is cooling. As Friday dawned, US equity indices continued their rally and finished positive for the week.

In Europe, equities begun the week positive, and rallied in the wake of the US inflation data. In general, world stocks were positive towards the end of the week, and on track for their biggest weekly rise of the year. The MSCI World Equity Index rose to its highest level so far this year, and is on track for its best week since November 2022. UK indices were also buoyed by the Bank of England stress test on the largest UK banks. As Friday drew to a close, equity indices across Europe ended on a positive note, with the Eurostoxx 50 closing higher at 4,400.11, while the FTSE 100 closed higher at 7434.57.

Bonds

Bond yields slipped sharply last week after the US inflation data was announced. With the lower inflation rate in the US, the possibility of rate cuts is looking more likely as we near the end of 2023 and early 2024. Along with the inflationary data, US PPI data pushed yields even lower. As yields drop, the price of bonds rises. As Friday closed, US 10 year bond yields finished at 3.83%, while the 2 year US bond yield finished at 4.768%.

EU bonds suffered the same results as US bonds, with UK 10 year, German 10 year and Irish 10 Year bonds all closing lower on Friday.

Commodities

In the commodities sphere, Gold had a positive week on the back of the positive US economic data, fueling speculation of a rate pause. Higher interest rates directly impact the cost of holding a gold bullion. As a result, Gold almost reach one month highs, and as Friday dawned the metal was up 1.6% for the week. Gold closed on Friday at a price of $1,964.60.

In Oil news, prices were up last week on the back of tightening supply due to the shutdown of several oilfields in Libya, while in Nigeria Shell ordered the stoppage of loadings due to a potential leak. Along with these, positive US data pushed prices higher as the week ended. UK Brent Crude closed at £79.87, while US WTI closed at $75.42.

Key Events

- 17/07/2023 – Chinese GDP
- 17/07/2023 – ECB’s Christine Lagarde speaks

Investment Review of the Week

Seaspray Private is delighted to present our Half Year Investment Review and Outlook. In this document we review what has been a tumultuous few months in markets, and look ahead to where we believe the markets are heading as we begin the "second half" of 2023.

https://seasprayprivate.ie/annual-updates/2023-h1-half-year-investment-review-outlook/