

Weekly Investment Review

Financial Headlines

United States

The big news last week in the US was the Federal Reserve rate decision. As expected by most, the Fed paused on hiking rates after 10 consecutive rate rises since the start of 2022. While this was a positive sign, Fed chair Jay Powell and the wider Fed committee remained extremely hawkish, stating that there will likely be further rate rises before the end of the year. The terminal rate for interest rates in the US appears to be in the region of 5.5% to 5.75%, meaning there is potential for two more rate rises before a pause. Powell later stated in his address that the full effects of the tightening cycle were yet to be felt in the market, and that the US labour market remains tight. Powell also said that subdued growth was likely to continue.

Europe & UK

In Europe last week, the big news was the ECB rate decision. Unlike the Fed, the ECB increased rates by 0.25 basis points, bringing the EU interest rates up to a level of 4%. This is the highest interest rate seen in the Eurozone since 2001 and will not be the last rate hike in this current cycle. The ECB is currently trying to catch up with the Fed and the Bank of England, as those two entities commenced their rate hike cycles before the ECB begun their own. This means inflation has remained higher for longer, with the ECB expecting inflation to return to its 2% benchmark by 2025. The president of the ECB, Christine Lagarde, stated in her address that while the euro area economy has stagnated in recent months, the labour market has remained strong with almost one million new jobs added in the first quarter of 2023.

Ireland

In Irish news, Allied Irish Bank announced that it will increase the interest rate on some deposit accounts to 2%. This rate will apply to a suite of accounts, comprising its regular online saver account, as well as its AIB Junior and Student saver. Also encompassed in this is EBS and its family saver accounts. This rate will only apply to the first €1,000 per month for 12 months, and after this period a rate of 0.1% will apply. The move will likely put pressure on the other major banks in Ireland to raise their interest rate levels.

Asia-Pacific

China, the world's second largest economy, last week lowered one of its key interest rates in a fight to stimulate growth and business as the post covid recovery many anticipated loses more momentum. The Peoples Bank of China cut the seven-day repo rate, which is used to manage short term liquidity in the Chinese banking system, while also announcing tax breaks and lower interest rates for businesses, as lending from smaller businesses has been poor. Lending from Chinese banks was Rmb1.36tn, or €175bn, which was well below the Rmb1.6tn, or €206bn forecasted by Reuters. Chinas economic fightback has stalled in previous weeks, due to poor export and import figures, as well as continued geopolitical tensions with the West.

Market Movers

Equity Indices	Value	Weekly Change	YTD Change
S&P 500	4,409.59	+2.51%	+13.28%
NASDAQ	13,689.57	+3.14%	+24.12%
EuroStoxx	4,394.82	+2.39%	+12.26%
FTSE	7,642.72	+1.05%	+1.16%
ISEQ	8,772.21	+3.06%	+18.96%

Interest Rate	Current Rate	Direction	Rate Change
FED	5.25%	—	0
ECB	4%	↑	+0.25
BOE	4.5%	↑	+0.25

Fixed Income	Yield	Weekly Change	YTD Change
US 10YR	3.767	+0.64%	-2.97%
US 2YR	4.72	+2.63%	+6.23%
German 10YR	2.4525	+3.22%	+0.39%
UK 10YR	4.4435	+3.62%	+17.79%
Irish 10YR	2.803	+1.82%	-6.42%

FX	Value	Weekly Change	YTD Change
EUR/USD	1.0943	+1.79%	+3.85%
EUR/GBP	0.8533	-0.18%	-3.71%
GBP/USD	1.2826	+2.00%	+6.09%

Equities

Equities had a positive week overall, even with the interest rate decisions made by the Federal reserve and the European Central Bank. On Wednesday the Federal Reserve's rate decision rocked markets briefly, sending major US indices down on Wednesday afternoon. However even with the hawkish sentiment of the Fed in the wake of the decision, markets bounced back and began to rally later in the week. This was caused by increases in Big Tech companies like Microsoft and Facebook, who were spurred on by signs of the end of the Fed's tightening policy, as well as positive retail sales in the US. The S&P 500 finished the week up from the previous week, closing at a level of 4,409.59, while the NASDAQ closed at 13,689.57.

In Europe, most analysts and investors anticipated a 0.25 basis point rise, and therefore markets did not have the same immediate negative reaction as seen in the US. European indices then benefited from the US rally late on Thursday and into Friday and enabled them to finish higher than the previous week. The Eurostoxx 50 finished the week at a level of 4,394.82, while the FTSE 100 finished at a rate of 7,642.72. Finally in Ireland, the ISEQ finished at 8,772.21.

Bonds

Bond Markets in the US had a rather tumultuous week with the Fed rate pause. Yields had increased in anticipation of the announcement, and closed on Wednesday at their daily high, reflecting the hawkish nature of the Fed's current outlook for the year. However, a positive rally in the major indices on Friday pushed yields back down before they increased again as Friday closed. The US 10 Year yield finished at a rate of 3.767, while the two year yield finished at 4.72.

In Europe, specifically in England, bond yields had a surging start to the week, as two-year gilts saw yields rise to their highest level since 2008. This was on the back of record wage growth, adding to the already very high inflation and future interest rate rises. Elsewhere, longer term EU bonds were not adversely impacted this week, due to the expected ECB rate rise. The UK 10 year yield closed higher, at a rate of 4.4435, while the German 10 year finished at 2.4525. Finally the Irish 10 year closed at 2.803.

Commodities

In commodities this week, the big news was in the Agricultural commodity sector. The global crop merchant, Bunge, is set to combine with its competitor Viterra in an \$8.2bn deal, which will make the combined company as large as some of the biggest trading houses in the world. The combined revenues of the two companies last year were \$121bn, on the back of the Ukrainian war sending agricultural prices soaring. Bunge is known for trading soybeans, wheat, corn and canola, and has over 23,000 employees across 300 facilities in 40 countries. The merger is expected to be completed in mid-2024.

Key Events

- 21/06/2023 – UK CPI (YoY) for May
- 22/06/2023 – Bank of England Rate Decision
- 23/06/2023 – German Manufacturing PMI
- 23/06/2023 – US Services PMI for June



Chart of the Week

This week's Chart of the Week highlights the unseen engine of the world's economy, deep sea fibre cables. Over 1.4mn kilometers of deep sea fibre cables criss cross the world's oceans. Four countries dominate this market, with France having laid the largest share of deep sea cabling, enough to go from Earth to the Moon and continue. These fibre cables carry 99 percent of intercontinental data, with more than \$10tn worth of financial transactions being transmitted via these cables every day. As technology progresses, the reliance on these cables will become even more pronounced.

