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Weekly Market Review

Financial Headlines

United States

In the US last week, the ratings agency Fitch downgraded the US debt rating from triple A to double A plus, with Fitch citing worsening fiscal conditions in the years to come and a general increase in the US government debt burden. The agency also stated that the downgrade was due to the continuous stand offs between political parties and the last-minute resolutions which almost brought the US to the brink of a sovereign default back in May. Along with the downgrade, Fitch also anticipate that the general government deficit is expected to rise to 6.3 per cent in 2023, up from a level of 3.7 per cent in 2022. This is not the first time that the US credit rating has been downgraded in recent years. In 2011, S&P downgraded the US to double A plus after a similar debt ceiling debacle to the one that played out in late May of this year. The move by Fitch caused outrage in Washington, with the White House stating that the decision was "off-base, absurd, and widely & correctly ridiculed."

Europe & UK

In the UK last week, the Bank of England once again raised interest rates by a quarter of a percentage point. This now leaves rates in the UK at a level of 5.25 per cent. This is the thirteenth straight rise that the BoE has implemented since they began raising rates back at the end of 2021. The aggressive tightening cycle that has been embarked upon by the major central banks has begun to bear fruit for many economies. In England, after many months of higher inflation and poor economic data, consumer price inflation fell to 7.9 per cent in June. However, it is still expected by most investors that the Bank of England will have to continue raising rates well beyond current levels if they wish to bring inflation down to its 2 per cent target.

Ireland

Ibec, the largest business representative body in Ireland reported last week that the economic outlook for Ireland is on course to enter a more moderate period of growth, with the economy experiencing a natural slowdown after the extraordinary bounce back in 2022, which recorded 9.4% growth in GDP. Ibec forecast that GDP for 2023 is likely to be in the range of 3.2 per cent this year, with a slight forecasted increase to 3.3 per cent next year.

Asia-Pacific

China's investment in metal and mining operations are on track to hit a record in 2023, as the world's second largest economy tries to defend its position as the world's leader in production of electric vehicles, batteries and other renewable energy sources such as wind turbines. In the first half of 2023, investment in mining and metals contracts by China reached $10bn. This figure is more than the 2022 full year investment total in these sectors by China. Some of the areas China is investing in are nickel, lithium and copper, as well as uranium, steel and iron.

Market Movers

Equity Indices	Value	Weekly Change	YTD Change
S&P 500	4,582.23	-2.33%	14.60%
NASDAQ	14,316.66	-2.93%	25.32%
EuroStoxx	4,467.55	-3.05%	11.05%
FTSE	7,694.27	-1.72%	0.14%
ISEQ	9,036.01	0.63%	21.82%

Interest Rate	Current Rate	Direction	Rate Change
FED	5.50%	↑	+0.25
ECB	4.25%	↑	+0.25
BOE	5.25%	↑	+0.25

Fixed Income	Yield	Weekly Change	YTD Change
US 10YR	4.042	2.10%	4.03%
US 2YR	4.768	-2.45%	7.18%
German 10YR	2.5145	2.07%	2.84%
UK 10YR	4.423	1.12%	17.41%
Irish 10YR	2.934	1.77%	-1.67%

FX	Value	Weekly Change	YTD Change
EUR/USD	1.1008	-0.07%	4.41%
EUR/GBP	0.8532	-0.49%	-3.73%
GBP/USD	1.2747	-0.84%	5.51%

Asset Class Review

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Equities

In the US, equity indices suffered considerably at the beginning of last week. Firstly, on Tuesday there was poor US economic data which showed that demand for workers is continuing to slow. There was 9.6mn job openings in June, which was the lowest level since 2021. However, on Wednesday US stocks had their biggest one-day decline in months. This was due to the Fitch downgrading of the US credit rating from triple A to double A plus. The S&P 500 dropped 1.4 per cent, its largest daily decline since April, while the NASDAQ had its biggest one day drop since February. On Friday, nonfarm payrolls and the unemployment rate figures for June were announced. Payrolls were down, however so to was the unemployment rate, down to 3.5%. In Europe, equity indices were also hampered by the US downgrade, with the Eurostoxx 50 and FTSE 100 both posting three days of straight loses last week. Major EU indices finished lower, however the ISEQ was one of the few to finish higher at the end of the week.

Last week was another big week for corporate earnings, with global powerhouses Apple and Amazon among the biggest names to release Q2 earnings. Apple announced in its earnings report that the number of paid subscribers for its digital services passed the 1bn mark. However, sales of the iPhone and iPad were all lower than last year, falling by 20 per cent. In terms of revenue, while total revenues were down by one per cent for Q2, overall net profits rose by 2.3 per cent to $19.9bn, which was well ahead of Wall Street expectations. Along with Apple, Amazon also released their earnings on Thursday. The online retailing and cloud services giant posted positive earnings, with revenues for the last quarter of $134bn. This was due in part to stronger than expected online sales, and a better than anticipated rise in its cloud services revenue. Amazon Web Services revenue grew by 12 per cent, two percentage points higher than analysts had expected. Amazon's stock price increased by 9 per cent in aftermarket trading as a result. In Ireland, Bank of Ireland announced a surge in profits for the first half of the year, with pre tax profits of €1.03bn.

Bonds

Bond yields had a mostly positive week, in particular the long term government bond market. In the US, 10 year treasury yields surged as the government announced it would be increasing its borrowing in the coming months. Yields also benefitted from positive private payroll data. European yields also had a positive week, with the Bank of England rate hike helping yields.

Commodities

Gold prices had their worst week in six weeks, as positive economic data, the rate hike from the Bank of England and increased borrowing from the US government pushed the metal down over 1.3% last week. By Friday evening, Gold spot prices had closed at $1,978.20. Meanwhile, Oil had another bumper week, as more supply cuts from Russia and Saudi Arabia pushed the fuel source to its sixth straight week of gains. Brent Crude closed at $86.15, while WTI closed at $82.64.

Key Events

- 10/08/2023 - US CPI's
- 11/08/2023 - UK GDP

Chart of the Week

Stock Market Rally Broadened in June, July

S&P 500 Select Sector SPDR ETF Returns

Ticker	Sector	Jan - May Return	June - July Return
XLK	Tech	32.02%	8.56%
XLC	Communication Services	29.69%	10.52%
XLY	Consumer Discretionary	17.38%	14.60%
XLE	Energy	-12.44%	14.22%
XLU	Utilties	-7.90%	3.30%
XLF	Financials	-7.13%	11.24%
XLV	Health Care	-5.90%	4.94%
XLB	Materials	-3.42%	14.26%
XLP	Consumer Staples	-2.52%	4.24%
XLRE	Real Estate	-2.41%	5.97%
XLI	Industrials	-1.38%	14.01%

This week's Chart of the week looks at how market breadth in the S&P 500 has improved in the last two months, with strong gains in all major sectors, in comparison to the overreliance on a few sectors in the preceding five months. This is encouraging to see and has helped maintain the positive market rally we have witnessed so far this year

https://seasprayprivate.ie/improving-stock-market-breadth/