

Weekly Market Review

Financial Headlines

United States

Banks in the United States suffered losses of almost \$19bn in defaults from loans in the second quarter of 2023, which is the highest level in more than three years. These losses are known as charge-offs, meaning they are marked as unrecoverable by banks. Much of these losses can be attributed to the higher interest rates faced by those with floating rate loans, along with consumers in the US having less in their savings due to higher costs of living, and landlords struggling to fill up office space due to increased hybrid and remote working arrangements. There is now expectation that loan defaults will increase as the year progresses. US banks set aside an additional \$21.5bn to cover potential future losses from loans in the second quarter of this year. The biggest losers in terms of monetary costs were Capital One, who lost over \$2.5bn in charge-offs, followed by JP Morgan who lost over \$1.5bn. Morgan Stanley were the only bank to suffer no losses from charge-offs.

Europe & UK

In the UK last week, GDP figures were released for the period between April to June. The results showed that GDP was 0.2 per cent higher than in the preceding three months before April. GDP was also 0.4 per cent higher than in the same period a year ago, however quarterly GDP is still 0.2 per cent below its pre covid levels. According to the Bank of England, what these figures suggest is that the UK economy will not fall into a recession like was expected for some time. However, the Bank did admit that while there would not be a recession, the economy would remain near stagnant for the next two years. The news is not all negative though, as recently the UK has reported an increase in the manufacturing and services sector, with business investment also increasing by 3.4 per cent in the previous quarter.

Ireland

The European Commission last week approved a €1.3 billion forestry programme for Ireland, which will see 8,000 hectares of forestry planted every year between 2023 and 2027. The programme will also increase the annual premium payments for farmers from 15 to 20 years, with non farmers eligible for 15 years of payments for planting.

Asia-Pacific

China's economy fell into a state of deflation last week, as consumer prices fell for the first time in two years. The CPI for China dropped by 0.3 per cent year on year for July, highlighting the challenge faced by policy makers in China as they struggle to kickstart domestic demand, increase exports and manage a very fragile property sector. Since January, year on year headline consumer prices in China have fallen from 2.1% in January to the current level of -0.3 per cent. The economy in China has grown by 0.8 per cent between quarter one and quarter two this year, however exports for July dropped by 14.5 per cent year on year, the highest fall since the Pandemic began.

Market Movers

| Equity Indices | Value | Weekly Change | YTD Change |
|----------------|-----------|---------------|------------|
| S&P 500 | 4,464.05 | -0.31% | 14.33% |
| NASDAQ | 13,644.85 | -1.94% | 23.88% |
| EuroStoxx | 4,320.65 | -0.34% | 10.75% |
| FTSE | 7,524.16 | -0.53% | -0.40% |
| ISEQ | 8,828.27 | -3.00% | 19.48% |

| 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 | 4.158 | 2.79% | 6.71% |
| US 2YR | 4.892 | 2.53% | 9.53% |
| German 10YR | 2.62 | 4.03% | 6.76% |
| UK 10YR | 4.528 | 2.32% | 19.32% |
| Irish 10YR | 3.02 | 2.85% | 1.23% |

| FX | Value | Weekly Change | YTD Change |
|---------|--------|---------------|------------|
| EUR/USD | 1.0944 | -0.58% | 3.86% |
| EUR/GBP | 0.8619 | 1.01% | -2.68% |
| GBP/USD | 1.2694 | -0.42% | 5.11% |

Equities

US Equities began last week higher, after the global sell off the week previous. Investors were keen to see the results for the next round of corporate earnings, as well as economic indicators relating to consumer and product inflation. The S&P 500 climbed 0.8 per cent on Monday, while the NASDAQ climbed almost 0.4 per cent. On Tuesday, Moodys, a rating agency lowered the credit rating of some mid sized banks in the US. The agency said that higher funding costs, as well as a slowdown in deposits had played a major part in the decision. Of the ten banks downgraded, six were put on a list for review, which could lead to future downgrades. The downgrading caused equity indices to drop after the positive Monday session. Indices fell further on Wednesday in anticipation of the inflation data that was to be released on Thursday. The economic data on Thursday showed inflation had risen slightly to 3.2 per cent, below the 3.3 per cent expected but higher than the previous months rate of 3 per cent. Indices finished flat on Thursday after the news. Finally, on Friday, indices dropped again to finish the week lower after better than expected producer price inflation, indicating that the Fed could leave rates higher for longer. The S&P had its first back to back weekly decline since May, while the NASDAQ had its first back to back decline since December.

In Europe, while the downgrading of banking stocks damaged equities in the US, EU indices dropped after the Italian deputy Prime Minister announced a 40 per cent windfall tax for banks. However, almost as quickly as it had been announced, the Italian government backtracked on this, which helped indices in Europe, particularly Italy, rebound on Wednesday. EU indices climbed Thursday but still finished the week lower, impacted by the producer price data out of the US on Friday.

In corporate earnings last week, some of the big names who released earnings included US software company Palantir, Chinese tech company Foxconn, and Alibaba. Palantir released earnings on Monday last and announced net income of \$28m for the quarter, in comparison to a net loss of \$179m for the same quarter a year ago. Foxconn beat estimates for the second quarter, with net profit of T\$33 billion. Finally, Alibaba had the biggest rise in revenue since 2021, with revenues of \$32.29bn.

Bonds

Bond yields last week had a very positive run, boosted by the higher than expected inflation figures out of the US. Due to these figures, it could be anticipated that the Federal Reserve will leave rates higher in order to bring inflation down to its desired target of 2 per cent.

Commodities

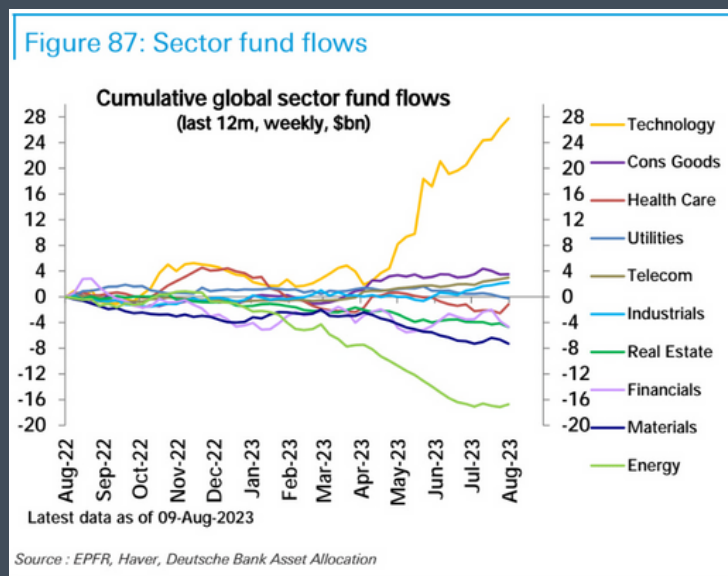
In commodities, Gold had a poor week last week, due to a solid dollar and increased bond yields due to the US inflation data, which was higher than expected. As a result, Gold fell 1.4% last week, and closed at a price of \$1,946.60. Oil had a seventh straight week of gains, as the International Energy Agency forecasted record demand and tightening supply. This caused both the WTI index and the Brent Crude index to grow 0.5 per cent last week. WTI closed at \$83.19, while Brent closed at \$86.81.

Key Events

- 15/08/2023 - UK Jobs Data
- 15/08/2023 - Eurozone Economic Sentiment



Chart of the Week



This week's Chart of the week highlights global sector fund flows over the past 12 months. As is clear, tech funds have seen remarkable inflows since April of this year. This is another clear sign that developments in technologies, such as AI cannot be ignored and highlights how investors are treating the sector in comparison to others. For more data insights please click on the link below.