SEASPRAY PRIVATE
Creating Investment Solutions

Monday
21.08.2023

Weekly Market Review

Financial Headlines

United States

US clean technology startups have attracted almost double the amount of investment in comparison to their European counterparts, thanks to the Inflation Reduction Act that was signed into law by President Joe Biden last August. This Act included $390bn in subsidies and tax credits, with the ultimate aim of decarbonising the US economy and creating more jobs in green industries. Since the Act has come into law, more than $21.7bn has been committed to climate projects in the US, whereas only $8.7bn has been committed in Europe. In particular, there has been a pronounced increase in investment in clean hydrogen, which is a gas that can be used to decarbonise industries such as cement and steel. The US has invested, in euro terms, €1.2bn in clean hydrogen between Q1 of 2022 and the present day, outpacing EU investment in every quarter.

Europe & UK

In the UK last week, due to a combination of lower gas and electricity prices, the headline inflation figure for the UK fell from an annual increase of 7.9 per cent to 6.8 per cent in July. This is the largest monthly drop in inflation since February of this year and will come as welcome news to the Bank of England who recently raised rates to their highest level in 15 years. Within this drop, food prices rose only 0.1 per cent, in signs that the volatile food sector pricing was beginning to equalise. Core goods also grew at a rate of 0.3 per cent. More concerning to the BoE was the service prices, which are seen as a guide to domestic inflation. These prices grew at a level of 0.8 per cent in July.

Ireland

A report issued by the Irish Tourism Industry Confederation stated last week that Ireland will need an additional 11,500 tourism beds if it is to meet the projected demand over the next decade. It is anticipated by the ITIC that tourist numbers to Ireland will reach 13.2 million by 2032, up from a high of 9.7 million in 2019. However, a separate report by consultants Cushman and Wakefield highlighted the issues with building new hotels, stating that high building and land costs are placing a drag on hotel building. The report also stated the overreliance on the Dublin area for hotel building, with 84% of 3,600 new hotel beds being located in Dublin City, while the Midlands region only accounted for 5% of national tourist bedrooms.

Asia-Pacific

Chinese property developer Evergrande filed for bankruptcy protection in the United States last Friday, as the company aims to restructure its agreements with international creditors, who hold billions of dollars of bonds in the company. Evergrande has close to $19bn in overseas liabilities and is the world's most indebted developer with total liabilities of $340bn. The news comes as Country Garden, another property developer in China, missed payments on its international debts in August. This has renewed fears in the health of the Chinese property market.

Market Movers

Equity Indices	Value	Weekly Change	YTD Change
S&P 500	4,369.71	-2.14%	13.83%
NASDAQ	13,290.78	-2.63%	27.58%
EuroStoxx	4,213.45	-2.51%	11.44%
FTSE	7,262.43	-3.54%	-1.90%
ISEQ	8,609.19	-2.51%	24.08%

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	4.251	5.04%	9.15%
US 2YR	4.943	3.60%	11.04%
German 10YR	2.62	4.11%	6.99%
UK 10YR	4.7195	6.49%	25.05%
Irish 10YR	3.029	3.19%	1.53%

FX	Value	Weekly Change	YTD Change
EUR/USD	1.0872	-1.25%	1.71%
EUR/GBP	0.8538	0.07%	-3.59%
GBP/USD	1.2737	-0.08%	5.58%

Asset Class Review

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Equities

US Equities had a bruising week overall. On Tuesday, after the release of strong retail sales data in the US, equity indices fell to a five week low. Strong retail sales, while good for businesses, show that the economy is not cooling as fast as the Federal Reserve would like and could in turn lead to interest rates staying higher for longer. Thus, indices fell. On Wednesday, the Federal Reserve minutes were released, and indices fell slightly after the release. The minutes indicated that most participants in the Fed's meeting saw significant upside risks to inflation, which could require further tightening of monetary policy. Indices were then dented further as the week began to close, due to the news out of China that Evergrande would be filing for bankruptcy protection and that Country Garden did not meet its monthly international repayments.

In Europe, indices suffered the same fate as their US counterparts over the course of the week. In the UK, the FTSE was down early in the week due to record wage growth, which once again fuelled speculation that the Bank of England will not be lowering rates any time soon and could potentially raise rates. The index fell further on Thursday, led by a 4 per cent drop in BAE systems, who announced they would be acquiring US aerospace company Ball Corp assets for $5.55bn. On Friday, UK retail sales fell by 1.2 per cent, which was a much higher decline then the 0.5 per cent drop that was expected. This highlights that the UK consumer is beginning to struggle in the face of higher borrowing costs. The index hit a nine month low on Friday morning, having declined almost 3.4 per cent over the course of the week. In Europe, indices were much the same. The benchmark Stoxx 600 fell to its lowest point in five weeks after the Fed minutes were released. EU equity markets were also spooked by the credit news out of China, as fears mount over the property sector there. The German Dax also hit a five week low last week. Finally, at home in Ireland, the ISEQ had a positive start to week on the back of solid earnings from Glanbia before falling lower as the week concluded.

Bonds

Bond yields had another bumper week, as the Fed's hawkishness sent sovereign bond markets soaring. In the US, as the Fed continues to see the upside risk of inflation, the US 10 year yield rose to as high as 4.31 per cent last week, which was as high as last October's 15 year high. The UK's 10 year gilt yield reached its highest level since 2008, topping out at 4.8 per cent. Further afield, in Asia-Pacific, the Australian 10 year yield rose to 4.3 per cent last week, its highest level in over nine years.

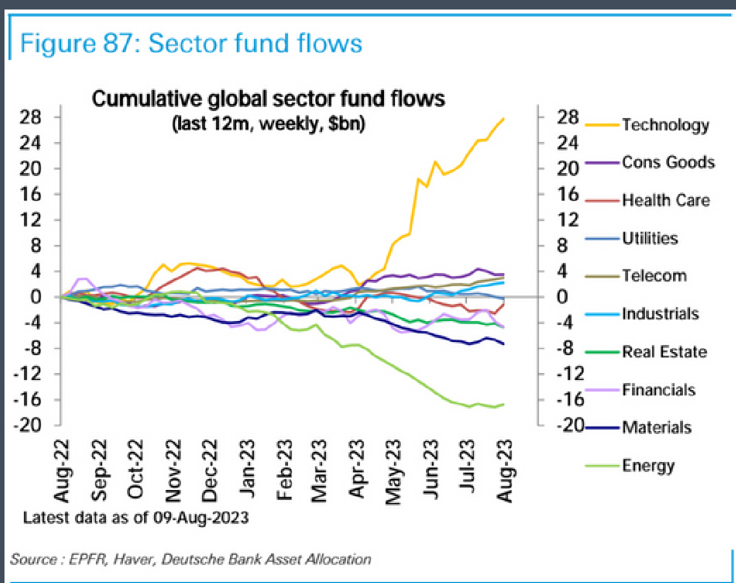
Commodities

It was another mixed week across the commodity sector. Oil, having had seven straight weeks of gains, saw a major pull back last week, with the US WTI index down nearly 4 per cent, and the UK Brent down almost 3 per cent. This is due to poor economic and property turmoil in China. WTI closed at $80.66, while Brent closed at $84.82. Gold had its fourth straight week of declines, impacted by the prospect of higher interest rates for longer. The metal closed at a price of $1,918.40 on Friday.

Key Events

- 23/08/2023 - EU and US PMIs
- 24/08/2023 - Jackson Hole Symposium begins

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.

https://seasprayprivate.ie/global-sector-fund-flows-show-increase-in-investment-in-technology-companies/