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Multi-Asset Investment Solutions

Weekly Market Review

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Market recap – stock markets fall amid concerns about energy costs

Global stock markets retreated last week as renewed energy volatility and higher bond yields* weighed on investor sentiment. In sterling terms, the US **S&P 500 index fell 2.4%** and the **Nasdaq 100 also slipped 2.4%**, reflecting broad weakness across technology giants and growth companies. Despite some resilience in travel stocks, the **FTSE 100 was down 3.2%**, dragged lower by banks, healthcare and industrial companies. European markets also retreated, with the **MSCI Europe index (excluding the UK) down 3.5%** as investors moved out of stocks more exposed to the economic cycle amid rising concerns about a potential 'stagflation' scenario, which is when economic growth is stagnant and inflation is high. Performance in Asian markets was more mixed. Japan's **TOPIX eased 0.8%**, pressured by renewed inflation concerns, while the **MSCI China index dropped 2.8%**, as fragile domestic demand combined with reduced risk appetite among global investors.

**Yield is the income paid by bonds or other investments. It is usually stated as a percentage of the value of the investment.*

Geopolitics – energy supply risks remain front and centre

Geopolitical tensions intensified as the US-Israeli conflict with Iran escalated. Fresh military strikes damaged critical oil and LNG infrastructure and the Strait of Hormuz remained closed to virtually all shipping, with concerns mounting about the prolonged impact of the conflict on energy supplies. Gulf economies are being affected to varying degrees. **Saudi Arabia**, **the UAE and Qatar have remained relatively resilient**, while more vulnerable countries like Bahrain are under greater pressure. Stock markets remained highly sensitive to news headlines, with the length of the disruption to energy supplies being viewed as the key factor likely to determine whether inflation will remain contained or rise.

Central banks – higher energy costs cloud interest rate outlook

Major central banks held interest rates steady last week but emphasised a cautious stance, as the energy shock complicates the inflation outlook. The **US Federal Reserve (the Fed) kept rates unchanged**, with indications that a cut later in the year may still be on the cards, despite uncertainty created by rising oil prices. The European Central Bank warned that sharply higher energy costs will have a 'material impact' on near-term inflation, prompting markets to price in the risk of a rate rise. The **Bank of England also held rates**, while signalling that a prolonged energy shock could necessitate rate rises. The **Bank of Japan** maintained its benchmark rate at 0.75% but kept the door open to raise rates if inflation remains persistent.

News – global stocks slip into correction territory

The dominant story for investors was the **broad retreat by stocks** as the energy shock pushed major markets into **correction territory**, which is when they fall by 10% or more from their most recent peak. Technology shares led declines, with investors reassessing valuations as bond yields rose and inflation expectations grew. Investor sentiment weakened further after data showing costs are rising for US companies and amid threats to energy infrastructure in the Middle East. While markets attempted brief recoveries mid-week, these rebounds faded as geopolitical uncertainty intensified, leaving most major stock markets firmly lower by Friday and reinforcing the defensive tone across global asset classes.

Economic data – inflation pressures re-emerge across regions

US data showed renewed inflation pressures, with producer prices accelerating more than expected, complicating the outlook for interest rate cuts. Housing market indicators were mixed. Sentiment among building companies improved slightly and pending home sales were slightly up, but new home sales fell to their lowest level since 2022, highlighting affordability constraints. **In the UK**, confidence indicators remained weaker, as firms reported rising energy-related costs. **In the Eurozone**, the trade balance slipped back into deficit and business sentiment weakened, with Germany's producer prices continuing to decline year on year. China delivered modestly better-than-expected early-year economic activity data, with industrial production up 6.3% and retail sales rising 2.8%, though property sector weakness and geopolitical uncertainty continued to weigh on broader sentiment. Taken together, **global data signalled a backdrop of increased near-term inflationary pressure** and uneven economic momentum across major economies.

Commodities

Oil prices remained volatile but elevated as supply disruptions across the Gulf restricted flows and uncertainty grew around the Strait of Hormuz. **Crude largely traded around the high-$90s to low-$100s,** reflecting persistent geopolitical risk.

Gold, however, fell sharply, posting its largest weekly decline in decades as higher bond yields, a stronger US dollar and profit-taking outweighed traditional safe-haven demand, despite the ongoing tensions.

Week ahead – what to watch

US: University of Michigan consumer confidence survey (Fri), regional Fed business survey data releases through the week.

UK: Inflation (Wed), retail sales (Fri).

Europe: Initial purchasing managers' index (PMI) data (Fri), German business climate (Wed), consumer confidence (Thu).

Asia: Japan inflation (Mon), China industrial profits data (Fri).

Source: Marlborough Multi-Asset, Morningstar, Financial Times, PIMCO, T. Rowe Price, Anglia Advisors, Trading Economics

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