Bank of Ireland

Week in review

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In this week's update, Kevin Quinn discusses:

- Oil prices and the resurgence in energy stocks
- European Central Bank (ECB) raised interest rates, as anticipated, by 0.25%
- Possible turning points for the Chinese economy
- Continuing weak economic data from the UK and Germany

Latest update from markets (to 14.09.23)

	1 week	YTD
US shares	+1.8%	+19.4%
European shares	+1.6%	+11.7%
European government bonds	+0.2%	+1.8%
Global commodities	+2.1%	-4.0%

Source: Bloomberg 14.09.23. Returns expressed in euros calculated to 14.09.23.

The long and short

Investing requires a long-term focus but shorter term events can take most of our attention. In this series of updates, we place current events into a longer term perspective.

The long…

Oil and the energy sector?

The energy sector was the top performer in 2022, beating all comers handsomely. This year, it had been the worst performer for most of the year, and both periods reflect the movement in oil prices. So far, Q2 2023 has seen this reverse yet again, reflecting once again the movement in oil prices.

Table 1: Global equities, energy sector & oil prices

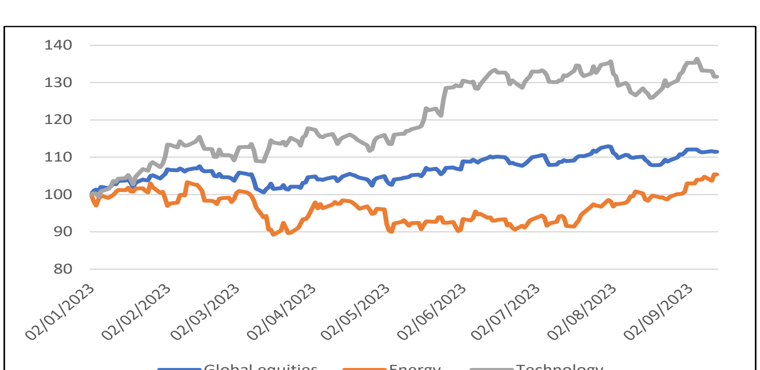
	2022	H1 2023	Since mid year
MSCI World all country	-12.8%	12.1%	1.7%
MSCI Energy sector	43.0%	-3.7%	14.0%
Oil price	107%	-17.6%	24.7%

Source: Bloomberg, 13.09.23.

As can be seen in the table and the chart, this latest rally tracks the movements in oil prices. After falling by 17.6% in the first six months of the year, the price of oil has surged in Q3. This rise in oil prices, now at 10-month highs, has been caused by the control of supply by Saudi Arabia, the Organisation of the Petroleum Exporting Countries (OPEC+) and Russia, which has seen production cuts until the end of the year.

While the year-to-date performance of energy compared to the technology sector is still lagging behind, this sector has been the winner since mid-year. To 12.09.23, the technology sector was -0.8% compared to energy at +14.0% since the start of July.

Figure 1: Equity market year to date performance



Source: Bloomberg, 13.09.23.

Can this continue? If oil productions remain constrained and prices stay elevated, energy stocks could continue to perform well. Certainly, as a sector, they trade at a discount to the wider market, which can make gains easier to achieve.

Performances indicated are to 12.09.23.

The short…

Market news

ECB rate decision – On Thursday (14.09.23), the European Central Bank (ECB) increased interest rates by 0.25%, bringing the policy interest rate to 4.5%. In a statement President Lagarde indicated that the inflation problem had not yet been resolved and that the ECB remained steadfast in its determination to restore price stability.

US inflation picked up in August and came in slightly higher than expected. Headline inflation was slightly higher than expected at 3.7%, while core inflation, which excludes energy and food, was in line with forecasts at 4.3% per annum (p.a.). High petrol prices contributed more than half of the increase. Market reaction was quite muted, suggesting they are waiting for the US Federal Reserve (Fed) meeting on the 20th September. Market expectations remain for a pause in September, but possibly one more rate hike later in the year.

US small business sentiment drops in August for the first time in 4 months, and slightly below expectations.

UK economic growth declines by 0.5% – The UK economy shrank by 0.5% in July, its largest contraction this year, contrasting with +0.5% in June. A drop in the services sector and health activities contributed to this, while there was also a deterioration in trade: exports to non-EU countries fell by -1.3% while imports rose by 1.4%.

Chinese inflation came in at +0.1% p.a. for August, slightly lower than expected but still a better outcome than the deflationary figure in July. Core prices rose by 0.8% p.a. the highest pace since January.

Chinese trade data showed the pace of contraction in exports had fallen to -8.8% year-on-year, compared to -14.5% the previous month. This continues to illustrate the weak global demand for Chinese exports. This news weighed on the Chinese yuan, which fell to its lowest level against the US dollar after the announcement. However, this came at the same time as indications that **Chinese credit** could be at a turning point, as data for lending in August showed a higher than expected expansion.

German ZEW survey of investor sentiment showed mixed signals this week. Economic sentiment came in higher than expected; however, the assessment of Germany's current economic situation deteriorated to a three-year low.

Source: Bloomberg, 14.09.23, BCA 11.09.23

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Table 1: 5 year historic performances

	2018	2019	2020	2021	2022
Global equities	-4.9%	28.9%	6.6%	27.5%	-13.0%
US equities	-0.5%	33.9%	8.6%	39.3%	-13.0%
European equities	-12.0%	29.8%	-2.3%	23.8%	-9.9%
Emerging market equities	-10.0%	21.8%	8.7%	4.2%	-14.9%
Global bonds	-1.1%	5.3%	4.9%	-2.6%	-15.1%
US government bonds	-10.6%	5.9%	8.8%	-2.2%	-12.5%
European government bonds	0.9%	6.8%	5.0%	-3.5%	-18.5%
Emerging market debt	-3.7%	0.6%	17.1%	-3.2%	-13.0%
Broad commodities	-6.8%	9.8%	-11.0%	1.0%	20.9%
US corporate bonds	2.5%	16.5%	1.3%	6.3%	-15.8%
European corporate bonds	-0.9%	6.2%	5.3%	29.2%	-14.1%
Japanese equities	-10.0%	22.2%	3.3%	9.8%	9.4%
MSCi World AC Energy	-8.2%	16.1%	-33.5%	47.7%	43.4%
MSCI World AC Technology	-0.8%	50.4%	34.3%	37.0%	-27.4%

Source: Bloomberg 13.09.23. All returns expressed in euros.

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Warning: Past performance is not a reliable guide to future performance.

Warning: The value of your investment may go down as well as up.

Warning: If you invest in these funds you may lose some or all of your investment.

Warning: These funds may be affected by changes in currency exchange rates.

Warning: Forecasts are not a reliable indicator of future performance.

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