

# Holding steady through a sluggish forecast



Markets experienced some June gloom in the wake of further interest rate hikes from central banks and lower economic growth forecasts.

Global growth is set to slow to 3% this year and 2.8% in 2023, according to the organisation for economic development (OECD). The ongoing war in Ukraine has added to the slowdown, along with high inflation following the pandemic.

Supply chain issues caused by lockdowns in China are also having an effect on the global economy's ability to bounce back and are predicted to continue into 2023. The World Bank echoed the OECD's sentiment by lowering its forecast for global growth to 2.9% from 4.1% for the rest of 2022.

## Markets fall in June

At its June meeting, the US Federal Reserve (Fed) announced the largest hike in interest rates since 1994, raising the rate by 0.75% to 1.5%. It added that further increases are likely in the coming months.

Stock markets in the run-up to the Fed's decision fell in June, as concerns mounted over the likely rise in rates in a more aggressive move to tackle surging inflation. The S&P 500 dropped to its lowest point since March 2021, as investors felt uncertain about the Fed's decision, and fell further after the Fed's decision. Overall, global stocks hit their lowest point since November 2020.

## Europe braces for late summer rate rises

In Europe, markets were affected by the European Central Bank's (ECB) effort to curb inflation across the single currency region. As well as cutting its growth forecast, the ECB revealed plans to make its first interest rate rise since 2011 in July, and a potential follow-up rate rise in September.

Although economic pressures linked to the pandemic have declined, the war in Ukraine as well as further disruption to energy supplies to Europe adds a substantial risk to growth.

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## UK growth forecast slows

The UK's economic growth is expected to slow towards the end of this year and into 2023, according to the British Chambers of Commerce, with a possibility of inflation hitting double figures by the end of 2022. The forecasts for economic growth are at 3.5% for 2022, which is less than half of the recorded growth in 2021. This news comes as the UK experienced two straight months of contracted growth, in March and April.

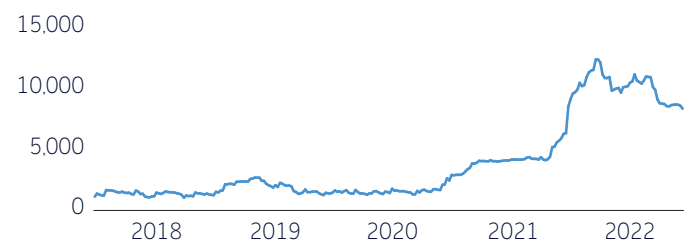
The Bank of England raised the interest rate again in June, by 0.25% taking it to 1.25%. It predicts inflation will reach 11% by October. This led to the FTSE 100 dropping 3% on the day of the rate rise, as markets continued to show concerns about growth.

## China shows some positive signs

China's economy showed some signs of recovery in June, as its industrial output grew during May having fallen the month before. The country's exports also grew in May, as some of the country's covid restrictions were lifted. However, China's zero-covid approach is still affecting consumer spending – with many cities affected by strict lockdowns as new outbreaks in some parts raised fears of fresh lockdowns.

## Figure 1: Container freight rates (in US dollars)

The cost of shipping containers from Shanghai to Los Angeles is falling. Supply chain issues show signs of easing as China emerges from its strict zero-Covid lockdowns.



Source: Bloomberg.