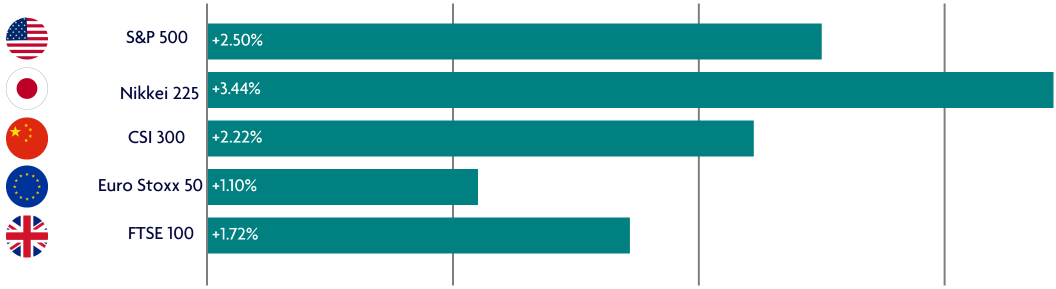
Weekly Market Update

4 September 2023

Markets bounced back strongly this week as a weaker labour market in the US leads investors to believe we may soon be approaching peak interest rates. Support the China's faltering economy also boosted global markets. Meanwhile, inflation continues to show signs of slowing down. In the UK, all eyes are on the property market, but the economy recovered from the pandemic much faster than previously reported.

Market Monitor (%): How did major stock markets perform last week?



Market Update:

UK

All eyes were on the property market this week, with news that, in August, house prices fell at the fastest annual pace since 2009. Mortgage approvals fell more than expected in July and house sales are on track for their slowest year in more than a decade. Higher interest rates and inflation are clearly having an impact on the property market. On more positive news, according to the British Retail Consortium, UK shop price inflation fell in August to its lowest level in almost a year, driven by an easing in food cost pressures. Elsewhere, official statistics on Friday added almost 2 per cent to the size of the UK economy, in a surprise move that showed the country recovered much faster from the pandemic than previously reported.

US

Broadly speaking, bad news for the US economy was considered good news for stock prices. Unemployment appears to be climbing, to the highest level since February 2022, a sign of growing economic worries. Secondly, job openings fell unexpectedly. This has implications for inflation – as the US central bank keeps a close eye on the labour market and what is likely to happen with wage inflation. This 'bad news' means that markets are expecting the central bank to pause or only hike interest rates very slightly, and this, boosted market sentiment.

Europe

Stocks rose on hopes that interest rates would soon peak and that a recession, while possible, would likely prove to be shallow and short-lived. Stocks also appeared to receive a lift from China's efforts to bolster its economy. A preliminary estimate suggests that the annual inflation rate in the eurozone was steady at 5.3% in August. However, if we strip out volatile food and energy costs, inflation appeared to be coming down compared to the previous month, albeit slowly. Members of the European Central Bank continue to suggest that we are likely approaching peak interest rates.

Japan

The weaker-than-forecast U.S. economic data releases boosted expectations that the U.S. Federal Reserve was getting closer to halting its interest rate hiking cycle, supporting investor sentiment Investors also welcomed China's latest measures to boost its markets and economy. On the economic data front, Japan's unemployment rate unexpectedly rose more than expected in July. Concerns about a global, and particularly Chinese, economic slowdown is leading many firms to become more cautious about increasing spending on plants and equipment.

China

A raft of policy announcements signalled Beijing's growing concern about the economy, which has been losing momentum this year. Disappointing data, deflationary pressures, record youth unemployment, and a deepening slump in the debt-laden property sector are some of the factors that have fuelled an erosion of confidence in China's economy.

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