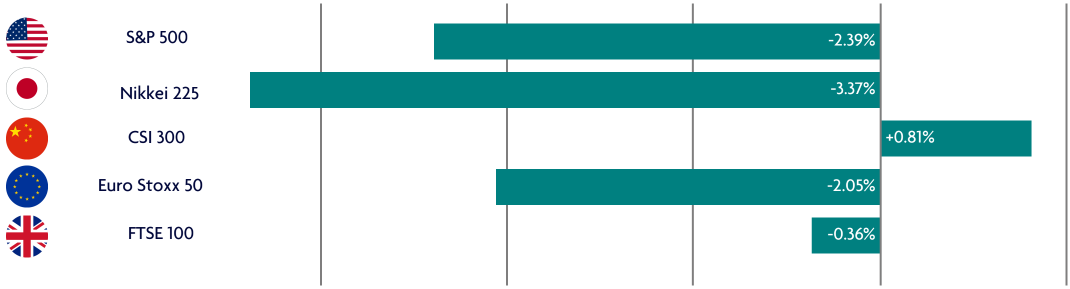
Weekly Market Update

25 September 2023

Investor sentiment was dampened this week by suggestions from various central banks that interest rates may have to stay at higher levels for longer, despite the US Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank all opting to pause interest rates increases (for now).

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



Market Update:

UK

The Bank of England (BoE) voted 5-4 to keep the key interest rate unchanged at 5.25% as economic growth slows – this is the first pause since December 2021. However, the governor of the BoE stressed that interest rates could rise again if there is evidence of more persistent inflationary pressures. The decision to not increase interest rates this month came a day after official data showed that annual inflation in the UK slowed to 6.7% in August from 6.8% in July. Measures of underlying inflationary pressures also declined but remain well above the Bank of England's 2% target.

US

Investors reacted to interest rate outlook coming out of the US central bank, the Federal Reserve (Fed). The Fed, as expected, did not raise interest rates this week. However, when looking beyond the decision, it appears that policymakers at the Federal Reserve expect interest rates to stay higher for longer. In addition to this, concerns about the impact of strikes and the potential for a US government shutdown may have also weighed on markets.

Europe

Key drivers for market performance included central banks signalling that interest rates will stay high for longer, higher oil prices and poor business activity data. Officials at the European Central Bank said that another interest rate increase could not be ruled out, as did the Swiss National Bank who did not raise interest rates this week. In terms of economic data, eurozone orders dropped the most in almost three years and forward-looking business activity data is pointing to a continued economic slowdown.

Japan

Investor sentiment was dampened by the Fed signalling that it planned to keep interest rates higher for longer to combat persistent inflation. In contrast, the Bank of Japan matched expectations of no interest rate increasing, disappointing those that hoped the central bank would hint at an exit from negative interest rates. This divergence in interest rates between the US and Japan, continues to weaken the Japanese yen. Japan's core consumer prices rose 3.1% year on year in August. However, core inflation has continued to slow, mainly because of the government's economic measures pushing down energy prices.

China

Investors grew more optimistic about the country's economic outlook, something we talked about last week. The CSI 300 ended the week up 0.8%. To further support the optimism, China's cabinet pledged to accelerate measures to consolidate the country's recovery and continue supporting growth in 2024.

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