Weekly Market Update

8 January 2024

In a shorter week for markets due to the holidays, stocks gave up multi-week gains as investors digested news which could delay central bank interest rate cuts. Strong labour market data in the US and higher inflation in the Eurozone pushed investors to reassess their expectations of when central banks might reduce interest rates in 2024.

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

Market Update:

UK

In the UK, the FTSE 100 fell over the week of the index's 40th anniversary. Market sentiment remained cautious due to increasing tensions in the Middle East. Similarly to other markets, stocks ended their multi-week long winning streaks as investors reassessed their expectations regarding the speed and extent of this year's anticipated rate cuts. Meanwhile, the housing market appeared to show a more positive story, with mortgage approvals increasing in December. Lower mortgage rates and hopes of a cut in interest rates also contributed to an uptick in home prices, according to mortgage lender Halifax.

US

Stocks gave back some gains made over the past several strong weeks. Investors appeared to start moving into sectors which lagged in 2023 including utilities, energy, consumer staples and healthcare. A slide in Apple shares weighed on the Nasdaq index, a large-cap, technology index. Smaller companies also lagged the broader market over the week. Trading volumes were muted over the holiday-shortened week as markets were closed on Monday. Labour market data released over the week surprised investors on the upside. A US payrolls reports showed that employers added 216,000 jobs over December, which was above market expectations. Similarly, the US unemployment rate surprised the market by remaining at 3.7%. A stronger labour market may make the central bank rethink when they begin cutting interest rates.

Europe

European stocks ended the week lower and snapped seven consecutive weekly gains, as optimism for an early cut in interest rates waned. European government bonds fell sharply, as traders reassessed when they thought rate cuts would arrive. A reacceleration in eurozone inflation in December appeared to make early rate cuts by the European Central Bank less likely. A preliminary estimate indicated that annual consumer price growth rose to 2.9% from a two-year low of 2.4% in November, reflecting a cut in government subsidies for electricity, gas, and food. However, a measure of core inflation, which excludes more volatile food and energy costs, eased to 3.4% from 3.6%.

Japan

Japan's main stock market was down over a short week (markets opened on Thursday). Lacklustre market performance followed a tragic earthquake that struck Japan on January 1st. The earthquake prompted debate that any potential exit by the Bank of Japan (BoJ) from its negative interest rate policy could now be delayed, given the need to assess the earthquake's effects on the economy. The yen dropped sharply against the US dollar. Despite concerns about a delay to the BoJ's potential policy change, the governor of the central bank said that there had been some shift away from Japan's prolonged period of low growth and low inflation in 2023. He hoped for further progress in achieving balanced rises in wages and inflation.

China

Stocks in China retreated amid persistent concerns about its economy. Economic data for December continued to show a varied picture of China's economy. The official manufacturing Purchasing Managers' Index (PMI), which gives us a prevailing view of the economy, contracted for the third consecutive month. More evidence of China's property slump underscored concerns about a key growth sector. New home sales by the country's top 100 developers fell 34.6% in December from the prior-year period. The housing downturn continues to drag on China's economy as falling home prices, construction delays, and builder defaults weigh on consumer sentiment.

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