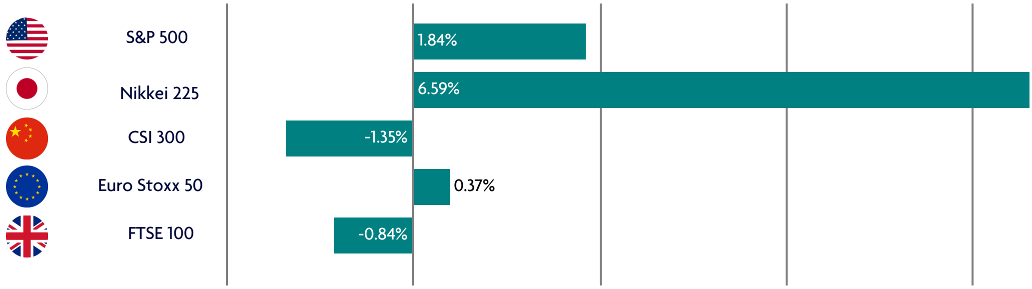
Weekly Market Update

15 January 2024

In the second week of the new year, the global stock market picture remained fragmented as investors assessed news impacting the magnitude and timing of central bank interest rate cuts. Whilst the Japanese stock market continued to grow ever higher, investors in the Western world remained fixated on what central banks do next.

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



Market Update:

UK

In the UK, stocks fell as tensions in the Middle East continue to persist, combined with a weak festive period for retailers. Retail sales grew by an annual rate of 1.7% in December, down from 2.7% in November. Households continue to remain cautious about making larger purchases. In a more positive vein, economic data released over the week showed that the UK economy rebounded more than expected in November driven by growth in the services sector, easing fears of a technical recession. The UK economy grew 0.3% between October and November, higher than market expectations. The Bank of England still expects no growth across the entire final quarter of 2023 and that the economy will be “broadly flat” over coming quarters.

US

Stocks moved higher over the week led by large-cap growth stocks. Technology giants including Facebook parent Meta Platforms and chipmaker NVIDIA posted strong gains. The week marked the unofficial beginning of earnings season with JPMorgan, the largest US lender, posting record annual profit for 2023. Inflation data released over the week came roughly in line with expectations. Headline prices rose 0.3% in December, but core (excluding food and energy) inflation also came in 0.3%, in line with consensus. That now brings annual inflation to 3.9%, marking the slowest 12-month pace since mid-2021. The US Labour Department reported that the number of workers filing for unemployment benefits and continuing claims dropped to the lowest level since October. The labour market appears to be in good shape as the new year began.

Europe

European stocks ended the week little changed, as investors assessed the prospects of interest rates staying higher for longer than previously expected. The President of the European Central Bank (ECB), Christine Lagarde, stated that “the worst part is behind us” in the battle to bring down inflation. Lagarde also asserted that interest rates had probably reached their peak but declined to comment on when potential rate cuts would occur. Markets are now expecting interest rate cuts to come later than previously expected, and that led to bond markets enduring a volatile week. Labour market data released in the week indicated resilience amid an economic slowdown. The Euro area unemployment rate stood at 6.4% in November, down from 6.5% in October.

Japan

Japan’s main stock market posted strong gains over a holiday-shortened week. The continuation of their ultra-low interest rates and weakness in the yen, which benefits Japan’s exporters, helped the market index rally to its highest level in almost 34 years. Economic data releases over the week caused investors to rethink whether the Bank of Japan (BoJ) could imminently reverse its negative interest rate policy. Headline wage growth slowed sharply in November, while inflation came in at 2.1% year on year in December, the slowest pace since June 2022. The BoJ has said that it will continue to maintain ultra-low interest rates until a sustainable rise in inflation, driven by wage growth, is seen.

China

Stocks in China continued to retreat as data highlighted that the country’s deflationary cycle persisted into December. This prompted investors to increase expectations of increased government support in 2024. Consumer prices fell 0.3% in December year-on-year, marking the third monthly decline. While producer prices declined 2.7% compared with November’s 3% drop, it was the 15th monthly decline. On the flip side, there was some positive economic data as China’s exports rose 2.3% in December from a year earlier, above economists’ expectations. However, during 2023 exports fell 4.6% - the first annual decline in seven years – due to global demand weakening.

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