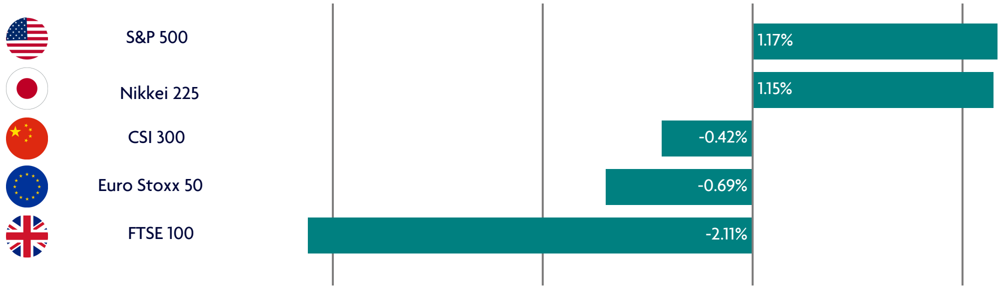
Weekly Market Update

22 January 2024

Market returns were mixed over last week as investors readjusted expectations for interest rate cuts as new economic data was released. Central bankers in the US and Europe attempted to calm investors who may have been overoptimistic on the quickness of rate cuts, telling the market that central banks need more data about economic conditions before any informed decisions on future paths can be taken.

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



Market Update:

UK

The annual rate of inflation defied expectations in December, ticking higher to 4.0% from 3.9% in November—the first increase in 10 months. The Office for National Statistics attributed the acceleration, in part, to higher tobacco prices. Core inflation, which excludes volatile energy and food prices, was unchanged at 5.1%. Other data provided mixed signals for the Bank of England. Growth in wages, excluding bonuses, slowed to its weakest pace in nearly a year, rising 6.6% compared to the previous year in the three months through November. However, retail sales volumes were much weaker than expected in December, falling 3.2% sequentially for their biggest month-over-month drop since January 2021.

US

Stocks ended mostly higher with information technology stocks doing particularly well, helped by a rally in semiconductor shares, such as Artificial intelligence chip giant NVIDIA. Data is pointing to a mixed picture on the US economy. On one hand, manufacturing activity is showing a weakening economy, whereas on the other, retail sales are doing well, suggesting that the consumption side of the economy remained in a much more solid condition. Expectations for interest rate cuts in 2024 fell sharply over the week due in part to comments by Federal Reserve Governor Christopher Waller, who told a virtual conference that “I see no reason to move as quickly or cut as rapidly as in the past” given the healthy state of the economy.

Europe

European stocks ended the week lower as comments from central bank policymakers prompted financial markets to reassess expectations of when interest rates might start coming down. ECB President Christine Lagarde signalled it was “likely” that interest rates would be cut in summer, not in spring as the market had increasingly come to expect. When asked by Bloomberg at the World Economic Forum in Davos if she agreed with Governing Council members who had indicated that they expected a rate cut midyear, Lagarde replied: “I would say it is likely too, but I have to be reserved.” She said that the ECB would have crucial information on wages that would influence a policy decision by “late spring.” The German economy shrank in the final quarter of 2023, and it is estimated it will have shrunk 0.3% during 2023.

Japan

Japan’s stock market rose over the week. Further signs of easing inflation dampened expectations about any shift in the Bank of Japan’s (BoJ’s) interest rate policy stance at its January meeting. The likelihood of the BoJ exiting its negative interest rates policy in the short term had already been reduced due to the economic impact of the deadly earthquake that struck Japan’s Noto Peninsula on New Year's Day. Japan’s core consumer price index (CPI) rose 2.3% year on year in December, down from November’s 2.5%, and was the lowest since June 2022. However, the BoJ has anticipated a slowdown in consumer inflation.

China

Stocks in China slumped as the latest indicators underscored the weak outlook for the economy. China’s gross domestic product expanded 5.2% in the fourth quarter over a year earlier and for the full year of 2023, meeting Beijing’s official annual growth target. However, other data highlighted pockets of weakness in China’s economy. China’s new home prices fell 0.4% in December, down from November’s 0.3% decline, marking the sixth consecutive monthly drop and the fastest fall since February 2015. Following a brief recovery in early 2023, China’s yearlong real estate slump has been a major headwind to its economy despite Beijing’s efforts to prop up the sector.

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