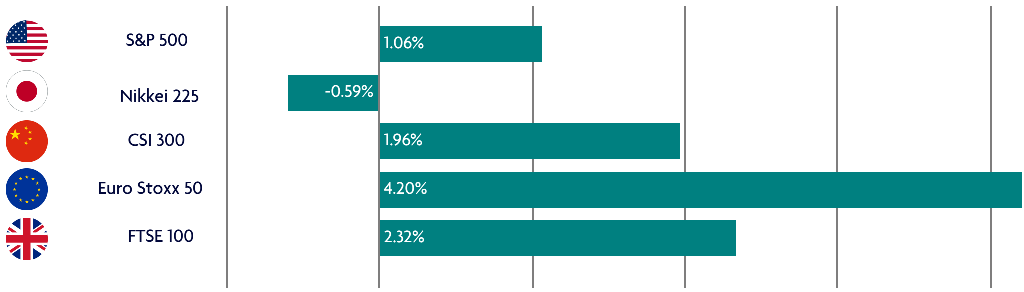
Weekly Market Update

29 January 2024

Market returns were generally positive over the last week with the main headline being the announcement from the People's Bank of China to introduce additional stimulus measures to kickstart the economy. Whilst investors still focus on adjusting expectations for interest rate cuts, global markets responded positively to the news coming out of China.

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



Market Update:

UK

Stocks rose as economic data released over the week highlighted that the economy is recovering from last year's stagnation with price pressures easing. The preliminary composite UK Purchasing Managers Index (PMI), a measure of economic activity, increased at the fastest pace for seven months, and ahead of expectations. This was despite the crisis in the Red Sea adding to manufacturing pricing pressures. Elsewhere, the UK Consumer Confidence Index rose for the third consecutive month marking the highest level since January 2022. Cuts to national insurance, falling mortgage rates and rising real wages are aiding positive sentiment despite the cost-of-living crisis still hurting households' budgets.

US

Stocks rose with the S&P 500 index reaching an all-time high marking the 12th weekly advance out of the last 13. This week investors turned their focus to company earnings reports. Major movers included Tesla, which declined sharply due to weak earnings and revenue, suggesting slower growth in 2024, whilst Netflix posted solid gains after an upside surprise in subscriber additions. Economic data releases over the week showed a surprise upside in manufacturing activity, jumping back into expansionary territory for the first time since April 2023. Services also beat expectations and hit the highest levels since June 2023. Meanwhile, the core personal consumption expenditure price (PCE) index, the Federal Reserve's preferred inflation gauge, rose 2% in Q4 in line with expectations and the central bank's long-term target. Over 2023 as a whole, the US economy grew 2.5%, up from 1.9% in 2022.

Europe

European stocks ended the week higher due to a combination of encouraging corporate results, China's announcement of additional stimulus measures and the European Central Bank (ECB) leaving interest rates unchanged. The ECB held interest rates at 4% signalling to investors that interest rate cuts could soon be round the corner. Christine Lagarde, the President of the ECB, reiterated that it was still "premature to discuss rate cuts", but also noted that the disinflation process was working. Eurozone business activity shrank for an 8th consecutive month in January but at a slower rate – a sign that that the current economic downturn may be beginning to stabilise.

Japan

Japan's main stock market declined over the week. The Bank of Japan (BoJ) retained its ultra-low interest rate policy with Kazuo Ueda, the Governor of the BoJ, highlighting the central bank's progress towards achieving sustainable inflation. Investors initially viewed this positively, raising hopes that a shift in interest rate policy could be on the horizon. However, optimism was tempered to a degree as softer than anticipated inflation data was released later in the week. The central bank continues to monitor further evidence of a positive wage-inflation cycle and will then examine the feasibility of continuing its massive stimulus program. Core inflation is forecast to rise 2.4% in 2024, down from October 2023's forecast of 2.8%.

China

Chinese stocks advanced following the People's Bank of China (PBOC), the Chinese central bank, announcement to cut its reserve ratio requirement (in essence the amount of cash that banks most hold in reserve) for most banks in February. This marked the central bank's first cut in banks required reserves this year, hoping that banks would boost the lending available to households and businesses, which should provide a very needed boost to the economy. The PBOC will also lower interest rates by 0.25% points for refinancing and rediscounting loans to support agriculture and small businesses. Many analysts predict that the central bank will continue to roll out pro-growth measures to revive consumer confidence, which has been depressed due to China's protracted property downturn and deflationary pressure.

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