Weekly Market Update

18 March 2024

Market returns were mixed over the last week as prices of goods and services stopped falling in China for the first time in half a year. Whilst Japan narrowly avoided a technical recession, the UK economy shows signs of a recovery from its recession experienced in the second half of 2023.

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

Market Update:

UK

Economic data released showed that the unemployment rate unexpectedly rose from 3.8% in December to 3.9% in January, whilst wage growth, excluding bonuses, fell to 6.1%, the lowest level since mid-2022. Both these data releases point to a loosening of the UK labour market, which the Bank of England (BoE) believe should help address the imbalance between the supply and demand for workers, and in turn bring down inflation. The UK economy showed signs that it may be recovering from a recession in the second half of 2023. The economy grew 0.2% sequentially in January, boosted by expansion of retailing and wholesaling. Andrew Bailey, the Governor of the BoE, declared during the week that the UK was "near or at full employment". He asserted that the UK was experiencing an "unusual" pattern of disinflation with full employment and stated that his concerns about a potential wage-inflation spiral had diminished.

US

Investors weighed upside surprises in inflation with signs of moderate consumer spending. Energy shares outperformed on the back of higher oil prices, while technology shares lagged due to weakness in Nvidia and other chipmakers. Economic data signalled that the consumer price index (CPI), the main measure of US inflation, rose in line with expectations. However, core prices, which exclude food and energy, rose more than expected, due to a continued increase in shelter costs. Meanwhile, domestic producers face higher input costs as the producer price index (PPI) rose significantly more than experts' estimations marking the largest jump in six months. We also saw signs of moderate consumer spending with retail sales rising 0.6% in February, lower than expectations. This, combined with sales at bars and restaurants increasing at a slower pace, suggests growing consumer caution.

Europe

A combination of encouraging corporate earnings and growing hopes that the European Central Bank (ECB) would lower interest rates in June boosted markets. ECB policymakers argued during the week that an interest rate cut may be needed by June with one ECB member stating that "the dragon of inflation is pinned to the ground; a little more and it will be defeated."

Japan

Japan's main stock market decreased over the week despite the likelihood of the Bank of Japan (BoJ) ending its negative interest rate policy in the near term rising. The BoJ announced the highest average wage rises for members of Japan's labour unions since the early 1990's as the central bank remains committed on meeting its 2% inflation target. Economists are expecting an interest rate hike in March or April. Elsewhere, the BoJ Governor gave a relatively downcast view of the country's prospects, stating that while the economy is recovering moderately, weakness has been seen in some data. Japan avoided a technical recession in the final quarter of 2023. GDP expanded 0.1% in Q4 2023, contrary to the earlier release suggesting the economy had contracted.

China

Chinese stocks rose as the government's recent market stabilisation measures boosted investor confidence despite a weak economic outlook. The People's Bank of China kept interest rates unchanged at 2.5%, as expected. China's consumer price index increased 0.7% in February from the prior year period, marking the first positive reading since August 2023. This was attributed to food and services prices increasing as consumption surged during the Lunar New Year holiday. Meanwhile, producer prices fell 2.7%, larger than expected, marking the 17th consecutive monthly decline, the longest streak of declines since 2016. Investors remain cautious on calling a trough to deflation as China grapples with weak domestic demand. Elsewhere, the State Council pledged to increase spending by at least 25% by 2027 from last year to encourage consumers and businesses to replace old equipment and goods. This is seen as a crucial step for Beijing to meet its economic growth target of 5%.

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