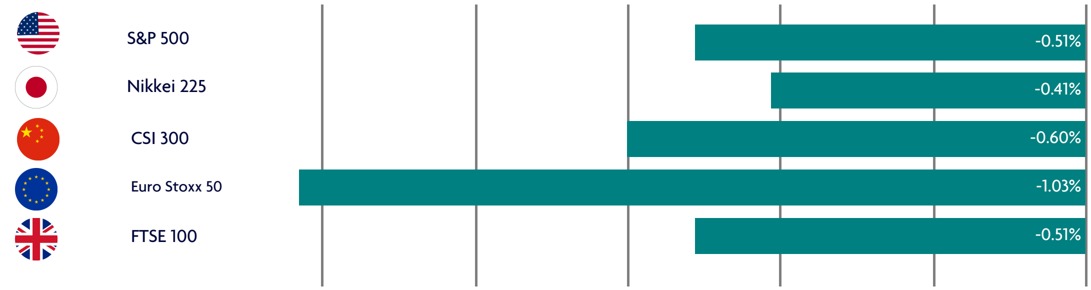
Weekly Market Update

3 June 2024

Markets were down across the board last week as economic data pointed to a delay in the timing and speed of a potential interest rate cutting cycle.

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



Market Update:

UK

UK stocks fell over the week as markets are now predicting that the Bank of England (BoE) will cut interest rates only once in 2024 as inflation has proved stickier than expected. The week saw the pound sterling rise to a 21-month high against the euro, as persistent price pressure in the UK has prompted investors to bet that the Bank of England will start lowering interest rates much later than its Eurozone counterpart. Meanwhile on the housing front, UK house prices rebounded in May despite a rise in mortgage rates. The Nationwide Building Society's house price index in May rose 0.4% sequentially, after falling in the previous two months. The index was 1.3% higher on a year-over-year basis. However, separate data released by the BoE suggested consumers were acting cautiously as net mortgage approvals inched lower in April and below market expectations.

US

In the week where Donald Trump became the first US President to be convicted of a crime, stocks fell over the holiday-shortened period. The initial market response to the news seemed fairly muted with experts predicting Trump would avoid jail time and still go full throttle for the Presidency. Elsewhere, on the economic data front the Price Consumption Expenditure (PCE) index, the Federal Reserve's preferred measure of inflation, rose 0.2% in April. This marked a slight decrease on the prior two months and a period of calming inflation pressures following January's 0.5% spike. However, "Supercore" inflation, which excludes energy and housing, offered a more mixed picture rising 0.3% in April, down a tick from March but up from February's increase. The "Supercore" inflation gauge has become more of a focus recently because of the unusual dynamics of housing and rental costs. Rising home prices and mortgage rates weighed heavily on pending home sales in April falling 7.7%, the biggest drop in over 3 years and well below expectations.

Europe

European stocks ended the week lower as hotter-than-expected Eurozone inflation increased uncertainty about interest rate policy easing by the European Central Bank (ECB) beyond June. The headline inflation figure in the Eurozone rose for the first time in five months in May ticking up to 2.6% from 2.4% in April. This exceeded experts estimates of 2.5%. Additionally, a measure of core inflation that excludes energy, food, alcohol, and tobacco prices increased to 2.9% from 2.7%. Meanwhile, the unemployment rate fell to a record low of 6.4% in April after coming in at 6.5% in each of the prior five months. On the policy front, the Chief Economist of the ECB, Philip Lane, stated that the pace at which the central bank cuts interest rates this year would depend on incoming economic data.

Japan

Japan's main stock market fell over the week as investors' focus remained firmly on the prospect and likely timing of further interest rate policy normalisation by the Bank of Japan (BoJ). The central bank ended its negative interest rate policy in March, although Japan's interest rate policy remains among the most accommodative in the world. Meanwhile, Tokyo-area inflation, a leading indicator of nationwide trends, accelerated in May to 1.9% year on year, in line with expectations. However, the acceleration, attributable largely to rising electricity bills, still means that inflation remained below the BoJ's target of 2%, reducing pressure on the central bank to raise interest rates soon.

China

Chinese stocks retreated as an unexpectedly weak manufacturing reading highlighted growth headwinds on the economy. The official Purchasing Managers' Index (PMI) fell to 49.5 in May from 50.4 in April, below expectations and marked the first monthly contraction since February. The gauge lagged the 50-mark level, separating growth from contraction. Earlier in the week, the International Monetary Fund (IMF) upgraded its 2024 economic growth forecast for China to 5%, up from its April projection of 4.6%, following Beijing's support measures and a stronger-than-expected first-quarter expansion. The week also marked further plans to shore up homebuying demand in Shanghai, China's largest city. Measures included lowering the down payment ratio for homebuyers and reducing the minimum interest rates on first home mortgages. This came after the central government announced earlier in May a historic rescue package for China's ailing property sector.

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