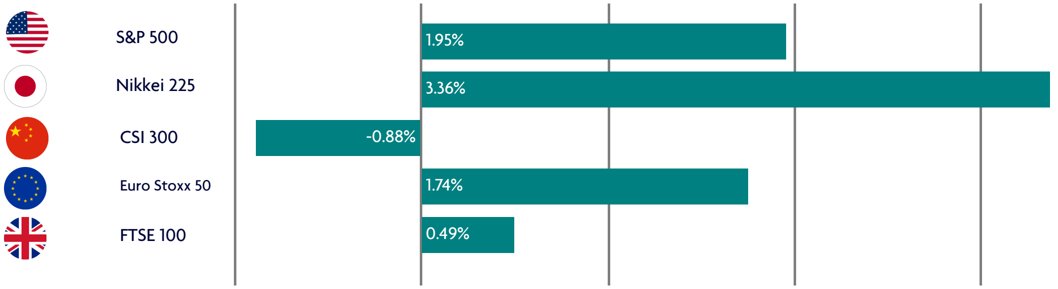
Weekly Market Update

8 July 2024

Markets were broadly up last week, with the US and Japanese stock markets climbing to all-time highs whilst the political landscape in the UK turned a new page.

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



Market Update:

UK

In the week where Sir Keir Starmer's Labour Party won a resounding victory in the UK's general election, stocks ended the week marginally higher. 14 years of Conservative rule came to an end with Rachel Reeves becoming the country's first female Chancellor of the Exchequer. The initial market response to the election was fairly muted with the result already widely expected and Labour announcing no material change in economic policy or plans for the budget. Meanwhile, away from the hustle and bustle of the election, UK house prices unexpectedly rose 0.2% in June, suggesting that the property market is stabilising ahead of expected interest rate cuts from the Bank of England. The rise took the average house price to just north of £266,000 – 1.5% higher than in the same month last year.

US

The US stock market climbed to record highs as expectations for lower interest rates, fed by signs of weakening growth and easing inflation pressures, boosted investor sentiment. The gains were driven predominantly by a collection of mega technology growth stocks, such as Apple and Microsoft. On the economic data front, the Institute of Supply Management's (ISM's) gauge of services sector activity took a sharp downturn due to high gas prices and worries over elevated restaurant prices weighing on consumers. The gauge fell from 53.8 in May to 48.8 in June – its lowest level since early 2020. A reminder that a reading above 50 indicates economic expansion while below 50 means economic contraction. Elsewhere, labour market data offered mixed evidence on the health of the economy. Job openings rose in May but lower than expected, marking the lowest level in over three years. Meanwhile, the unemployment rate ticked higher to 4.1% in June and wage inflation fell to 3.9%, suggesting a further moderation in wage pressures. Overall, the data signalled a potential weakening of the labour market, which may well translate into multiple interest rate cuts in H2 2024 by the Federal Reserve, the US central bank.

Europe

European stocks ended the week higher with political jitters easing as the far right in France failed to win an outright majority in the first round of legislative elections. The week was light on the economic data front with investors focusing on the comments of Christine Lagarde, the President of the European Central Bank (ECB). Lagarde appeared to strike a more hawkish tone - keeping interest rates high to control inflation – stating that Europe is "still facing several uncertainties regarding future inflation, especially in terms of how the nexus of profits, wages and productivity will evolve and whether the economy will be hit by new supply-side shocks." She added: "It will take time for us to gather sufficient data to be certain that the risks of above-target inflation have passed."

Japan

Japan's main stock market rose over the week, hitting all-time highs, propelled in part by weakness in the Japanese yen and softer economic data coming out of the US. The weakening yen boosted export-oriented companies, such as automakers Toyota and Mazda, however continued to weigh heavily on consumers. Household spending declined 1.8% year over year in May, well shy of market expectations. Elsewhere, Japan's biggest union group indicated that its members achieved an average wage increase of 5.1%, the biggest uptick in 33 years, highlighting the strong upward momentum in wages.

China

Chinese stocks retreated as underwhelming manufacturing data reinforced concerns about the slowing economy. China's manufacturing sector shrank in June for the second consecutive month. The official manufacturing purchasing managers' index (PMI) reached 49.5 in June, unchanged from May, as new orders and exports declined. The figure missed the 50-mark threshold separating growth from contraction. In other news, the value of new home sales by the country's top 100 developers fell 17% in June from the prior-year period, easing from a 34% decline in May. The data boosted hopes that China's housing market, now in its fourth year of a downturn, may start to gain traction after the government's rescue package in May.

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