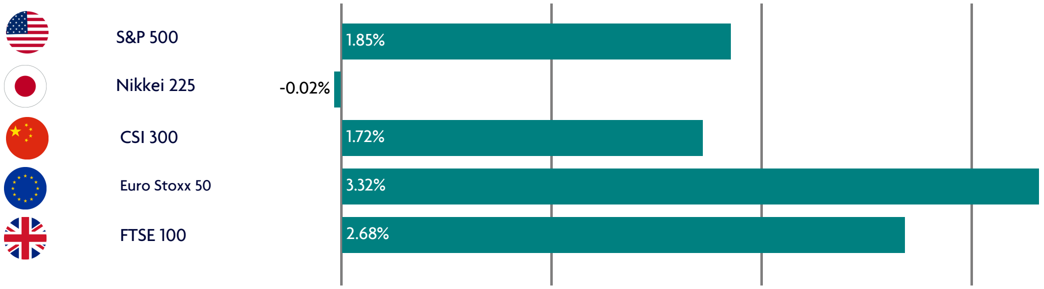
Weekly Market Update

13 May 2024

Markets were broadly up last week as optimism among investors in Europe and the UK rose due to both regions indicating that interest rate cuts are soon around the corner.

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



Market Update:

UK

UK stocks rose over the week as the FTSE 100 climbed to a fresh record high largely attributed to the actions of the Bank of England (BOE). The UK's central bank held interest rates steady at 5.25% while indicating that it could cut interest rates as soon as June. The Governor of the BOE, Andrew Bailey, stated that interest rates may need to be reduced more than markets expect, although he emphasised that the decision would depend on incoming data. The BOE also updated its economic forecasts with inflation now expected to slow more sharply to 1.9% in 2026 and to 1.6% in 2027. Meanwhile, the UK economy expanded by a much stronger-than-expected rate of 0.6% in the first quarter of 2024, exiting a recession that started in the second half of 2023.

US

Stocks rose over the week as the S&P 500 Index, an aggregate measure of the 500 largest companies in the US, recorded its third consecutive week of gains. It was a quiet week on the economic data front as a surprise rise in weekly jobless claims seemed to dominate the headlines. The number of people claiming unemployment benefits rose to 231,000 marking the highest level since August 2023. The week also brought signs that the labour market and broader economy might be cooling. The main indicator of consumer sentiment tumbled unexpectedly to its lowest level in six months with consumers "expressing worries that inflation, unemployment and interest rates may all be moving in an unfavourable direction in the year ahead."

Europe

European stocks ended the week higher on better-than-expected corporate earnings and increased optimism that major central banks would soon start cutting interest rates. Policymakers of the European Central Bank (ECB) confirmed that an interest rate cut in June is all but a done deal. However, the interest rate path beyond that is uncertain and the June interest rate cut is not necessarily going to be followed by further cuts in consecutive months, given that inflation remains volatile since and a possible delay by the US Federal Reserve to cut its own interest rate.

Japan

Japan's main stock market marginally fell over the week as the Bank of Japan (BoJ), the Japanese central bank, hinted that it could raise interest rates early if inflation shows signs of continuing to rise. This is largely due to the fact that inflation may have become more susceptible to the effects of weakness in the Japanese yen. The difference in interest rates between the US and Japan remains very high, which is causing the yen to weaken. Experts believe that even another interest rate hike in Japan is unlikely to support a sustainable appreciation in the yen. However, some signs of weakness in economic data may delay the BoJ's interest rate hike plans. Real wages (i.e. adjusted for inflation) fell 2.5% in March from a year earlier. The BoJ continues to reiterate its view that a "virtuous cycle" of growth in prices rising to its 2% target is a precondition for further interest rate hikes.

China

Chinese equities advanced as recovery hopes rose following buoyant holiday spending during the prior week's Labour Day holiday. Tourism revenue over the five-day holiday rose 7.6% compared to the previous year and surpassed pre-pandemic levels. However, average spending per traveller fell 11.5% from 2019 as consumers remained cautious about spending. In economic news, the private Caixin/S&P Global composite purchasing managers' index, which tracks both the services and manufacturing sectors, remains strong as overall business activity expanded in April. Meanwhile, trade data exceeded forecasts as China's exports increased by 1.5% in April from a year earlier, up from a 7.5% decline in March.

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