Weekly Market Update

5 February 2024

Market returns were mixed over the last week as labour market data in the US surprised on the upside whilst Europe narrowly avoided a recession. Chinese markets suffered their largest weekly fall in over 2 years as investor pessimism about the economic growth outlook heightens.

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

Market Update:

UK

In the UK, stocks fell marginally as the Bank of England (BoE) maintained interest rates at 5.25% and dropped its warning that rates could rise again. The Governor of the BoE, Andrew Bailey, cautioned that "we need to see more evidence that inflation is set to fall all the way to the 2% target, and stay there, before we lower interest rates.". Despite this he declared a change of mindset: "For me, the key question has moved from 'How restrictive do we need to be?' to 'How long do we need to maintain this position for?'" Elsewhere, more signs emerged that the UK housing market may be stabilising as mortgage rates come down. Net mortgage approvals for house purchases rose in December to a six-month high, whilst the Nationwide house price index rose 0.7% in December, higher than expectations.

US

Stocks rose as Amazon, Meta and Apple all reported stronger earnings than expected and this outweighed the lower-than-expected earnings guidance from Microsoft and Google parent, Alphabet. The Federal Reserve, the US central bank, left interest rates unchanged, as was widely anticipated. The Chairman of the Federal Reserve, Jeremy Powell, stated that an interest rate cut would be unlikely in March (the next Fed meeting). Labour market data released over the week also pointed to a lower probability of an imminent interest rate cut as employers added 350,000 nonfarm jobs in January, nearly double estimates. The number of job openings also rose to 9.03 million in December, the highest level in three months. Strong jobs data is likely to mean that interest rate cuts are delayed to later in the year. Meanwhile, there was some reassuring news on the struggling manufacturing sector as data suggests that January marked the best pace of growth since September 2022.

Europe

The Eurozone unexpectedly avoided a recession in the final quarter of 2023. GDP remain unchanged compared to the previous three months and 0.1% higher than a year earlier. Meanwhile, annual inflation continued to move in the right direction, with the headline rate slowing from 2.9% in December to 2.8% in January. The core rate, which excludes food and energy costs, also ticked lower to 3.3%.

Japan

Japan's main stock market rose as a robust corporate earnings season, underpinned by higher prices and strong tourism, boosted domestically focused firms. The Bank of Japan (BoJ) stated that it is likely to reach a point where it can begin raising interest rates soon. After assessing the degree of macroeconomic effects of the Noto Peninsula earthquake by monitoring its impact for the next few months there is growing confidence that price stability is in sight (the Japanese central bank has kept interest rates at ultra-low levels in hopes of bringing back some healthy inflation into the economy). Elsewhere, manufacturing conditions weakened in January with cost burdens rising at a marked pace amid high raw materials, labour, and fuel prices.

China

Chinese stocks faced their biggest weekly fall since 2022 as downbeat economic data and property headlines fuelled investors' pessimism about the economic growth outlook. Economic data showed both manufacturing and service sectors improving in January but the services sector remains in contraction. In other news, a Hong Kong court ordered China Evergrande, formerly China's largest property developer, to be liquidated after the company failed to reach a restructuring agreement with its creditors since it defaulted on its offshore bonds in 2021. The focus now shifts to mainland China, which has a separate legal system, and where most of Evergrande's assets reside. This has the potential to undermine China's financial system and further weaken confidence in the housing industry. Property sales remain weak due to falling home prices and construction delays.

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