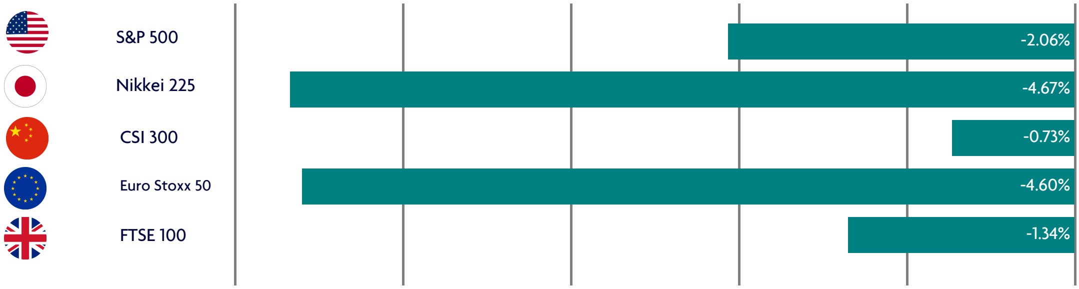
Weekly Market Update

5 August 2024

Global markets declined across the board last week as investors were left roiled by weak economic data coming out of the US, sparking concerns about economic growth.

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



Market Update:

UK

UK stocks ended the week lower despite the Bank of England (BoE) cutting interest rates from 5.25% to 5%. The quarter point reduction marked the first decrease since the start of the Covid-19 pandemic in March 2020. It was a split decision, however, with the Monetary Policy Committee voting 5-4 in favour of the decision. Governor Andrew Bailey also made clear that the Bank would not embark on a rapid succession of cuts, stating, “We need to make sure that inflation stays low and be careful not to cut interest rates too quickly or by too much.” Experts are now forecasting another interest rate cut in November this year.

US

The US stock market declined over the week as investors reacted to the busiest week of the quarterly earnings reporting season and fresh economic data that sparked concerns that the economy may be slowing faster than expected. Companies representing nearly 40% of the US market reported second-quarter earnings during the week. While results varied, there was a common theme with heavyweight tech companies such as Amazon and Microsoft substantially increasing their spending on Artificial Intelligence (AI) capabilities, which many perceived as being overdone. On the economic data front, whilst the US central bank, the Federal Reserve, kept interest rates unchanged, as expected, private sector job growth slowed to the lowest level since October 2021. A number of indicators pointed to a ‘cooling’ of the labour market as the number of new jobs came in below expectations while the unemployment rate surprisingly increased from 4.1% to 4.3%. Investors became increasingly concerned that the Federal Reserve may have left it too late to try to support the US economy and that the country may enter a recession.

Europe

European stocks ended the week lower as global markets were roiled by weak US economic data that sparked worries about growth. On the economic data front, an initial estimate showed that annual inflation in the eurozone picked up to 2.6% in July from the 2.5% registered in June. This was above expectations. Year-over-year changes in inflation varied across countries, with inflation easing in Spain but rising faster in Germany, France, and Italy. Elsewhere, the region’s economy in the second quarter of 2024 expanded a faster-than-expected 0.3% led by growth in France, Italy, and Spain. Meanwhile, the unemployment rate ticked up to 6.5% in June from an all-time low of 6.4% in May.

Japan

Japan’s main stock market fell 4.7% marking one of the biggest declines in the index’s history, comparable to its one day plunges in March 2020 when Covid-19 pandemic struck. This was predominantly due to disappointing US macroeconomic data dampening investor risk appetite. The week also marked an increase in interest rates from 0.1% to 0.25% by the Bank of Japan (BoJ) with Japan’s economic activity and prices developing generally in line with the BoJ’s outlook. This was the BoJ’s 2ndinterest rate hike this year, after exiting its negative interest rate policy in March, and came earlier than had been anticipated by many investors. Meanwhile, the BoJ lowered its growth outlook for the 2024 fiscal year from 0.8% to 0.6%.

China

Chinese stocks fell as weak manufacturing data tempered investor sentiment. The official Purchasing Managers’ Index (PMI) slipped to slightly from 49.5 in June to 49.4 in July, marking the third consecutive monthly contraction. A reminder that a gauge below the 50-mark threshold indicates economic contraction. Chinese officials stated that the decline was due to seasonal factors and extreme weather events in some major cities in China. The PMI alongside other economic data suggested that momentum in China’s export sector, one of the few bright spots in its economy, was slowing.

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