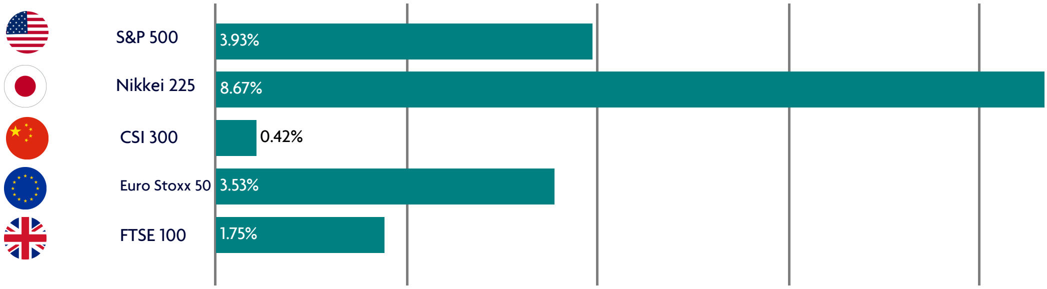
Weekly Market Update

19 August 2024

Global markets were up across the board last week as positive US economic data suggested that the world's largest economy might steer clear of a potential recession.

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



Market Update:

UK

UK stocks ended the week higher as economic data offered scope for interest rate cuts as inflation slows and economy grows. The headline inflation figure in the UK ticked up to 2.2% in July from 2% in June. However, growth in services prices slowed more than forecast, prompting financial markets to price in a higher likelihood of interest rate cuts later this year. Services prices have been a key focus for policymakers as they have tended to be the stickiest component of inflation. Meanwhile, the UK economy remained strong in the three months to June with GDP expanding 0.6%, following a solid rebound in the first quarter after last year's recession.

US

The US stock market rose over the week as investors appeared to celebrate positive news on both the inflation and growth fronts, which together boosted hopes that the economy might achieve a "soft landing". Official economic data suggested that the consumer was holding strong in the face of the cooling labour market. This was evidenced by retail sales surging 1% in July, their best showing in 18 months. Also, the week's inflation data seemed to support sentiment. The year-over-year increase in the Consumer Price Index, the main measure of inflation, fell below 3% for the first time in well over three years. This came in line with expectations but also seemed to reassure investors.

Europe

European stocks ended the week higher as the eurozone economy maintained its resilience, expanding 0.3% sequentially in the second quarter the same rate as in Q1. GDP growth in France, Italy, and Spain offset an unexpected contraction in Germany. Still, industrial production contracted 0.1% in June, falling short of a consensus estimate for a 0.5% increase. Even so, the labour market remains resilient. Economic data also showed that Eurozone employment in the second quarter expanded 0.2% sequentially.

Japan

Japan's main stock market rebounded strongly over a holiday-shortened week. The gains were broadly due to three catalysts with the first being that the Japanese yen weakened against the US dollar, providing a boost for Japanese exporters that benefit from a weaker domestic currency when selling its goods and services overseas. Secondly, sentiment was enhanced by better-than-expected US economic data, which soothed concerns about a recession in the world's largest economy. The third catalyst was that Japan's economy expanded more than anticipated in the second quarter of the year. The country's Gross Domestic Product (GDP) expanded 0.8% quarter on quarter, ahead of estimates of 0.5% and reversed the first quarter's 0.6% contraction. Elsewhere, Japan's Prime Minister Fumio Kishida will reportedly not seek re-election as leader in September. Political uncertainty over a new leader is unlikely to drive markets in the near term unless there are shifts in interest rate and fiscal policy views.

China

Chinese stocks rose as investor sentiment was largely unaffected by weaker-than-expected economic activity. July economic data highlighted weakness in China's economy. Industrial production rose 5.1% from a year earlier, but slowed from June's 5.3% increase, partly due to lower auto sales, while the urban unemployment rate edged up to 5.2% from 5% the prior month. Elsewhere, new home prices extended their decline marking the 13th straight monthly drop. New home prices in 70 cities fell 0.7% in July. The government's rescue package introduced in May have spurred demand in major cities but buying interest remained sluggish in smaller towns, according to Bloomberg.

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