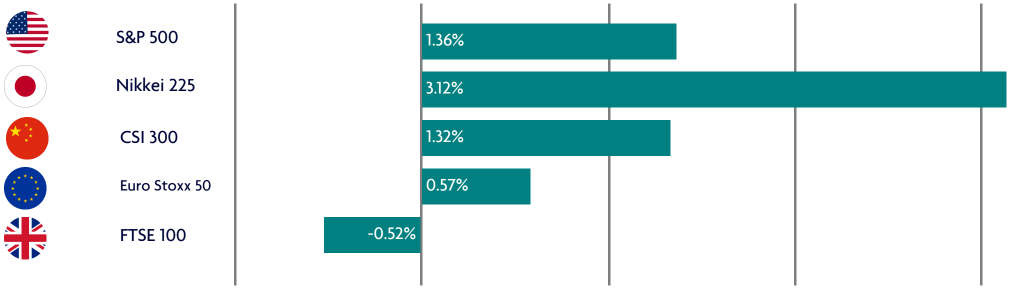
Weekly Market Update

23 September 2024

Global markets were broadly up last week as the US Federal Reserve cut interest rates for the first time in over four years in what many believe will be the beginning of a prolonged interest rate cutting cycle.

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



Market Update:

UK

UK stocks ended the week marginally lower as the Bank of England kept interest rates unchanged, as largely expected. The key policy rate remained at 5% with the Monetary Policy Committee voting 8-1 in favour of no change. Governor Andrew Bailey stressed that “in the absence of material developments, a gradual approach to removing policy restraint remains appropriate.” Bailey also declared that “it is vital that inflation stays low, so we need to be careful not to cut too fast or by too much.” Meanwhile, annual inflation came in at 2.2% for August, unchanged from July. However, year-over-year price increases in services – a closely watched gauge of wages by the Bank of England – quickened to 5.6% from 5.2%.

US

The US stock market reached all-time highs as investors celebrated the beginning of what many expect to be a prolonged interest rate cutting cycle. The Federal Reserve, the US central bank, cut interest rates by 0.5 percentage points to a range between 4.75% and 5%. This marked the first US interest rate cut since March 2020. A reminder that the Federal Reserve increased rates at 11 consecutive meetings in 2022 and 2023 and then held at 5.25% to 5.5% for over a year. Meanwhile, the week’s economic data had an overall upbeat tone with evidence that consumers remained in good shape. Retail sales rose 0.1% in August, not a sizeable jump but importantly was more than expected and followed a jump of 1.1% in July. In addition, investors seemed encouraged by signs of life in the troubled housing sector. The Commerce Department reported that building permits rose 4.9% in August, their biggest monthly increase in a year and marked the highest level since March.

Europe

European stocks ended the week marginally higher as investors grew cautious about the outlook for the region’s interest rate policy. This came after recent comments from European Central Bank (ECB) policymakers that indicated further easing of interest rate policy should be gradual, given persistent underlying inflation pressures. Meanwhile, on the economic front, hourly wages and salaries grew in the eurozone at an annual rate of 4.5% in the three months through June, down from 5.2% in the first quarter.

Japan

Japan’s main stock market rose over the week as the Japanese yen weakened versus the US Dollar due to the US Federal Reserve’s latest decision to cut interest rates. As mentioned in previous weeks, a weaker Japanese yen benefits exporters – making their goods less expensive compared to goods priced in stronger currencies. The week also saw the Bank of Japan (BoJ) leave their own interest rate level unchanged at around 0.25%, as expected. The Governor of the BoJ, Kazuo Ueda, stated that interest rate policy decisions depend on economic, price and financial developments and that interest rates will only be raised if forecasts are met. On the domestic data front, annual inflation rose to 3%, matching expectations and up from the prior month’s 2.8%.

China

Chinese stocks rose in a holiday-shortened week as the US Federal Reserve’s decision to cut interest rates offset a cluster of disappointing economic data in August. Industrial production, retail sales and fixed asset investments all rose lower than expected, underscoring slowing momentum in China’s economy. Elsewhere, the property sector, now in its fourth year of a downturn, showed no sign of letting up. New home prices in 70 cities fell 0.7% in August, marking the 14thconsecutive monthly drop. As a collective, the indicators suggested growing risks for Beijing in meeting its 5% economic growth target for 2024.

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