Weekly Market Update

23 December 2024

Major global stock markets fell over the week as investors reassessed their expectations for 2025 interest rate cuts following cautious commentaries from central banks.

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

Market Update:

UK

The Bank of England (BoE) left its key interest rate unchanged at 4.75%, as expected. However, three of the nine members of the Monetary Policy Committee voted for a quarter of a percentage point (0.25%) reduction because of sluggish demand and a weaker labour market. Even so, the majority judged that recent increases in wages and prices had "added to the risk of inflation persistence." Governor Andrew Bailey said: "We think a gradual approach to future interest rate cuts remains right." He added that, with the heightened uncertainty in the economy, "we can't commit to when or by how much we will cut rates in the coming year." Headline annual inflation accelerated as expected in November to 2.6% from 2.3% in October due to higher gasoline and clothing costs. Underlying price pressures remained strong. Average weekly earnings, excluding bonuses, climbed 5.2% in the three months through October, exceeding a consensus forecast for 5%.

US

U.S. stocks declined during the week, although a rally on Friday helped major indexes recover some of their lost ground. The event dominating sentiment during the week appeared to be the Fed's rate announcement following its highly anticipated policy meeting that concluded Wednesday. As was largely expected, policymakers announced a quarter point (25 basis points, or 0.25 percentage points) cut to the Fed's policy rate following the meeting, bringing the total reduction in rates to 100 basis points (1.00 percentage point) since the start of the rate-cutting cycle in September. While the cut was in line with what many were anticipating, sentiment turned negative on Wednesday afternoon as investors digested forecasts and commentary from Fed officials regarding the path forward for interest rates. Speaking at a press conference following the meeting, Fed Chair Jerome Powell noted that policymakers' forecasts for core inflation in 2025 rose to 2.5% from 2.2% in September. Powell said that the central bank is "going to be cautious about further cuts," with most Fed officials now expecting two rate cuts in 2025, down from four in September.

Europe

European stocks faced their biggest weekly loss in more than three months. U.S. President-elect Donald Trump's warning about potential trade tariffs on the European Union and concerns about the outlook for interest rates undermined sentiment. Activity in the eurozone's private sector ended the year still in contraction, although a rebound in the services sector ensured that the overall decline was marginal, purchasing managers' surveys by S&P Global showed. The slowdown in business activity in the bloc's largest economies—Germany and France—eased only slightly. In Germany, Chancellor Olaf Scholz lost a vote of confidence in his coalition government, paving the way for an early federal election on February 23.

Japan

Japan's stock markets fell over the week. Banks faced a headwind on a slight increase in expectations that the pace of monetary policy normalization by the Bank of Japan (BoJ) could be slower than had been anticipated. The BoJ kept its policy rate steady at around 0.25% at its December 18–19 meeting. Market expectations had been converging around the greater likelihood of a hike in January. Japan's nationwide core CPI rose 2.7% year on year (y/y) in November, ahead of consensus expectations for a 2.6% y/y increase and up from 2.3% y/y in October. With the pace of consumer inflation rising to a three-month high, pressure remained on the BoJ to raise interest rates. The central bank's base case is that it will raise rates if its projections for the economy, prices, and wage growth are met.

China

Chinese equities retreated as disappointing data raised concerns about the economy. November activity data pointed to the uneven nature of China's recovery amid a looming trade war with the U.S. Retail sales expanded a below-consensus 3% from a year ago, down from October's 4.8% rise and highlighting Chinese consumers' unwillingness to spend.

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