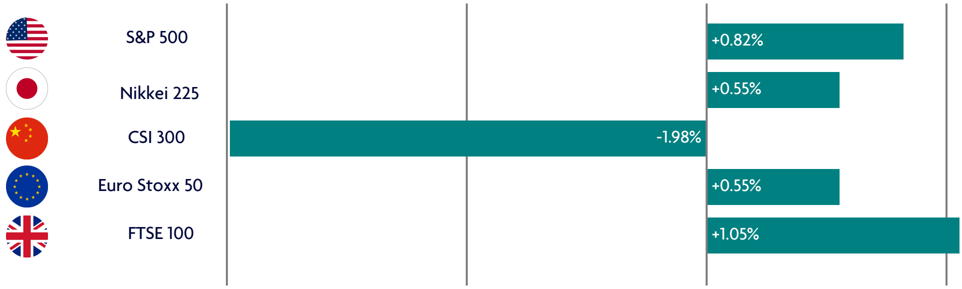
Weekly Market Update

29 August 2023

Markets recovered on lukewarm economic data, pointing to, perhaps, world central banks slowing down on interest rate hikes. Over in China, pessimism persists given the challenges around its economic recovery, deflation, and its property sector.

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



Market Update:

UK

Stock markets rallied in line with other global markets. UK business activity recorded its weakest month in August since January 2021. The Flash UK PMI Composite Output Index, which shows the prevailing wind of the economy, moved into contraction territory for the first time since January. New orders also shrank for a second consecutive month.

US

Markets reacted to a string of mixed economic data and corporate results. Corporate results broadly pointed to a cautious outlook, with falling earnings and many companies reporting a rise in late credit card payments. On the flip slide, consumer sentiment appears to be strong. While sentiment has fallen a bit during the month of August due to the recent increase in gas prices, it still appears to remain robust.

Europe

Stocks rose as European natural gas prices dropped and expectations grew that interest rates may soon peak. Economic data pointed to a weakening European economy, prompting financial markets to pare expectations on future interest rate increases. Data suggests that business activity likely slowed again in August. Germany is expecting its economy to stagnate in the third quarter of the year. This would mean that its economy would have posted zero growth for two consecutive quarters. A recovery in private consumption should continue, according to its central bank, but it also asserted that weak foreign demand could translate into anaemic industrial production.

Japan

Japanese equities rallied following the previous week's declines, posting four consecutive positive days. Investors looked through the lacklustre economic support offered by the Chinese government for its economy and focussed on positivity within the Japanese economy – which continues to show signs of expanding. However, on Friday, markets gave up most of the week's gain on renewed concerns about China's slowdown, while trade relations also took a turn for the worse following Japan's decision to dump contaminated water from the Fukushima nuclear plant into the Pacific Ocean.

China

Chinese stocks fell as investors grew more pessimistic about the country's economic outlook. Disappointing data, signs of deflation, record youth unemployment, and continued liquidity problems in the debt-laden property sector have contributed to an erosion of confidence in China's economy. Signs of deteriorating growth—and a sense that China's government has relatively few good options to arrest the downturn—have raised the prospect of accelerated capital outflows.

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