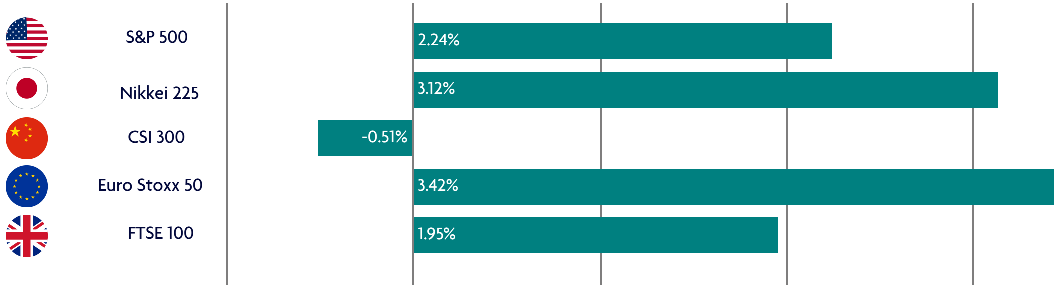
Weekly Market Update

20 November 2023

Markets ended the week generally higher amid cooling inflation signals. Tuesday's better-than-expected monthly inflation report sparked a stock market rally in an otherwise quiet week of trading. As a result of this lower-than-expected inflation reading, we saw a shift in the interest rate outlook – and as a result bond yields fell during the week, meaning that bonds also had a good week (as bond prices move in the opposite direction to yields).

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



Market Update:

UK

Annual consumer price inflation in the UK slowed more than expected to 4.6% in October from 6.7% in September, prompting investors to believe that interest rate cuts are likely to come next year. Core inflation, which excludes food and energy, and services inflation also decelerated. Before the data were released, Bank of England Chief Economist Huw Pill said that an expected drop in inflation would still leave it "much too high" relative to the 2% target. On the flip side, the UK labour market is still facing inflationary pressures. Wages, including bonuses, rose 7.7% in the three months through September compared with 7.9% in the previous period. And the Office for National Statistics estimated that unemployment was unchanged at 4.2% in the three months through October. The Bank of England will want to see these areas ease to confirm that inflation is in fact coming back under control.

US

The S&P 500 Index built on its strong gains over the previous two weeks as the week's closely watched inflation reports arguably confirmed that what might be bad news for retailer revenues could be good news for interest rates. On Tuesday, the Labor Department reported that its headline consumer price index had remained unchanged in October, driven in part by a sharp drop in energy costs. Core prices (which excludes food and energy) rose 0.2%, bringing the year-over-year increase to 4.0%, the slowest pace in two years. Producer price inflation, reported Wednesday, also surprised on the downside.

Europe

European stocks ended higher as declining inflationary pressures could mean central banks cut interest rates soon. European government bond yields declined, and bond prices rose, as data indicated that inflationary pressures cooled and that central banks might need to embark on rate cuts next year. European Central Bank (ECB) President Christine Lagarde said at an event that inflation would likely pick up at the start of next year as base effects drop out of the annual comparison. Lagarde hinted, however, that even if inflation accelerates again, another interest rate increase may not be required but suggested that interest rates were likely to stay at current levels for some time.

Japan

Stock market gains were supported positive news coming out of corporate earnings reports. Investor appetite was also boosted by the latest U.S. inflation data, which showed inflation cooling mire than expected, signalling that the US economy may avoid a recession and raising hopes that interest rates may have peaked. Meanwhile, weak economic data failed to dent investor sentiment. Japan's third-quarter gross domestic product (GDP) data showed that the economy shrunk by a worse-than-expected 0.5% over the three months. The contraction follows two straight quarters of growth and suggests that Japan's economic recovery remains fragile.

China

Chinese equities were mixed after official indicators highlighted the fragility of the country's economy. Official data for October offered a mixed picture of China's economy. Industrial production and retail sales grew more than forecast last month from a year earlier, while we saw a dip in infrastructure growth and real estate investment. Official readings showed that the housing market's slump deepened in October. Investment in property development fell 9.3% in the first 10 months of the year.

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