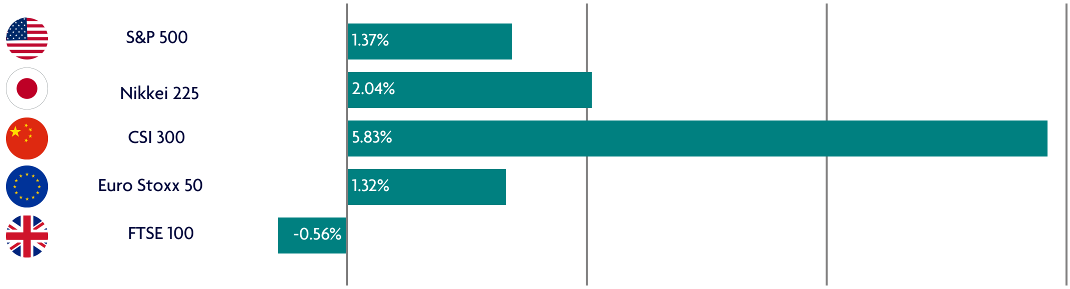
Weekly Market Update

12 February 2024

Market returns were generally strong over the week as stocks in the US and Japan reached new highs. Gains in some markets were capped however as central banks reiterated their intentions to be careful over interest rate cuts, suggesting that they may keep interest rates higher for longer to avoid a rebound in inflation.

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



Market Update:

UK

In the UK, stocks fell over the week. The UK economy appeared to be more resilient at the turn of the year, which could reinforce the Bank of England's (BoE) reluctance to reduce interest rates quickly. A labour market data update estimated the unemployment rate was 3.9% for the three months through November—lower than the 4.2% reported last month and the 4.3% that the BoE forecast for the final quarter of 2023. A strong jobs market may push the BoE to cut interest rates later in the year than earlier expected by investors. Separately, a purchasing managers' index (PMI – a measure of economic activity) for services came in at 54.3 in January, a final reading that was sharply higher than the initial estimate of 53.8. This marked the third consecutive month in which PMI for the services sector was greater than 50, a level that indicates an expansion in business activity.

US

Most of the major US stock indexes moved higher over the week, with the S&P 500 Index reaching new highs and breaching the 5,000 threshold for the first time. The advance remained relatively narrow, however, with technology stocks dominating returns. The narrowness may have reflected, in part, a quiet week of economic data releases, leaving investors to focus more on individual companies' earnings reports. US bond yields increased (therefore prices fell) at the start of the week, spurred by the strong jobs report seen last week and comments from Federal Reserve Chairman Jerome. Powell reiterated that he saw no need to cut interest rates immediately, and he had made these comments even before the strong jobs report.

Europe

European stocks ended higher after some strong company earnings updates. However, the likelihood of interest rates staying higher for longer curbed stock market gains. Senior European Central Bank (ECB) officials continued to warn against cutting interest rates too early. In an interview with the Financial Times newspaper, Executive Board member Isabel Schnabel argued against an early reduction, citing sticky services prices, a resilient labour market, and attacks on vessels in the Red Sea disrupting supply chains.

Japan

Japan's stock markets gained over the week. The Nikkei Index reached a 34-year high which prompted some investors to take profits on their positions. Reports of strong foreign investor interest in Japanese stocks in January and some solid company earnings were both supportive of the market. However, the gains may have been capped on expectations that the U.S. Federal Reserve is unlikely to cut interest rates in March. The latest signals from the Bank of Japan (BoJ) that its low interest rate policy will continue was positive for markets.

China

Stocks in China rallied in a holiday-shortened week as the government's lates raft of economic stimulus measures offset concerns about deepening deflation. Markets in mainland China are closed for the Lunar New Year holiday from Friday, February 9, and resume trading on Monday, February 19. The consumer price index (a measure of inflation) fell 0.8% in January versus the prior-year period. This was an acceleration in its downturn from December's 0.3% drop and marking its fastest decline since 2009. Food prices led the contraction as pork prices declined. Core inflation (which strips out volatile food and energy costs) rose 0.4%, its weakest rise since June 2023. The People's Bank of China said in its latest quarterly policy report that it would keep interest rate policy support flexible and precise to boost domestic demand. The central bank also forecast that inflation would "rebound modestly." Many economists predict that Beijing will introduce further economic stimulus measures as the world's second-largest economy continues to grapple with a property market downturn, weak consumer demand, and deflationary pressures.

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