

# Weekly Market Update

28 May 2024



Markets were broadly down last week as stronger than expected US growth data reduced the probability of a mid-year US interest rate cut. Investors also started to question other major central bank interest rate policy due to surprising economic data releases.

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



## Market Update:

In the week that Rishi Sunak announced a July general election, hopes of an interest rate cut midyear were dampened following surprising economic data. Firstly, UK inflation slowed less sharply to 2.3% in April – the lowest level in almost three years – from 3.2% in March. This fell short of market expectations of a 2.1% headline inflation figure. Additionally, core inflation (excluding food and energy prices) also surprised on the upside at 3.9%. Meanwhile, the UK consumer confidence index rose to the highest level in more than two years in May. However, the data also reflected that the cost of living crisis is still weighing on consumer sentiment, with the index still deeply negative and below its 2014-19 average.

Stocks were broadly flat over the week as artificial intelligence (AI) chipmaker NVIDIA's strong quarterly results didn't translate into broader gains for the market. The third largest company in the US announced record sales of AI chips equating to a 262% increase in revenue in the past quarter, beating lofty expectations. However, the broader market closed lower by the end of the week due to economic data suggesting a rebound in economic growth in May. Remember that the Federal Reserve, the US central bank, will only cut interest rates when they are confident that inflation is tamed (strong growth figures could suggest that inflation is not yet under control). With business activity jumping unexpectedly in May this led to speculation that the Federal Reserve would wait longer to cut interest rates.

European stocks ended the week marginally lower as questions emerged about the pace of potential interest rate cuts this year. Despite this the President of the European Central Bank (ECB), Christine Lagarde, stated in an interview that there was a "strong likelihood" that the central bank would reduce interest rates in June. Meanwhile, economic activity data in the Eurozone came in higher than expected. The Composite Purchasing Managers' Index (a combination of both manufacturing and services activity) for May increased to 52.3, up from 51.7 in April. PMI readings greater than 50 indicate an increase in activity.



## Japan

Japan's main stock market marginally fell over the week as despite upbeat economic data releases and a stellar earnings update from US chip giant NVIDIA, all gains were eroded as US data pushed the potential for a US interest rate cut further out. Firstly, encouraging economic data showed that Japanese manufacturing activity expanded in May for the first time in more than a year. The manufacturing Purchasing Managers' Index (PMI) climbed in May. The yen remains at trading levels hovering near 24-year lows, investors fear that this will undermine emerging Japanese inflation and, in turn, the prospect of any wage increases.



## China

Chinese stocks retreated as fears that interest rates would remain elevated in the US offset optimism about Beijing's latest measures to shore up the ailing property sector. Alongside keeping interest rates unchanged, the People's Bank of China (PBOC) announced a historic rescue package for the property sector as data showed no signs of let up in China's housing crisis. Measures included a re-lending program that would remove the nationwide floor level of mortgage rates and lower the minimum down payment ratio for home purchases. While most investors welcomed the plan, some remained sceptical on whether it will draw a line under the property slump, which remains a key drag on the world's second largest economy.



UK



US



Europe



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