7 May 2024

Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Star-spangled interest rate cuts are still on hold

Key takeaways

This week, we take a look across the Atlantic to the most influential economy on the global stage: the US. Over the past few days, an update from the US central bank and a slew of economic data has held investors' attention.

US central bank opts to hold interest rates steady

The US central bank – the Federal Reserve, or 'Fed' – announced last week that it would keep US interest rates at their current levels for the time being. While this means that we will need to wait a while longer for US interest rate cuts, it also means that the central bank does not currently plan to actively hike rates to combat recent further increases in US inflation.

Manufacturing and services sectors both contracting

Private sector survey data showed that both manufacturing and services sectors in the US are currently in contractionary (slowing) territory. Overall, the figures suggested that US economic activity is slowing down, potentially lowering expectations for inflation ahead. Investors believe this could encourage interest rate cuts from the Fed. However, although US economic activity appears to be slowing, we would note that it is falling from strong levels. The journey away from high inflation was never going to be entirely straightforward, and inflationary pressures could persist for a little longer from here.

Are US employment markets finally beginning to crack?

Sticking with the highly influential US economy, last week also played host to the latest US employment data. Employment figures for April were weaker than in previous months, with fewer jobs added to the economy than economists had expected. The unemployment rate also rose a little more than anticipated, and workers' average hourly earnings fell too. We've been waiting for quite some time for the US labour market to show signs of cracking under the strain of aggressive interest rate hikes, which were designed to slow down economic activity and take the heat out of inflation. While we're mindful of further false dawns, we do believe that signs of strain are now emerging in earnest. As with the move away from inflation, though, this is unlikely to be a smooth process.

Market moves

It was a positive week for both bond and stock markets, with most of the upbeat performance arriving as the week drew to a close.

Bond markets were broadly positive, as weak employment news in the US led investors to anticipate interest rate cuts (likely to help bond prices).

Commodity prices faltered, giving back some of the strong gains made earlier in 2024.

What to look out for this week

The Bank of England will be in the spotlight this week as it publicises its latest interest rate decision on Thursday. No changes are expected on this occasion, but market commentators widely expect both the Bank of England and the European Central Bank to begin cutting interest rates in June.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

marketing.hwam@handelsbanken.co.uk

Important Information