13 January 2025

Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

A tough week for most assets

Key takeaways

With the exception of energy and precious metals, most assets ended the week lower as investors reduced expectations for US interest rate cuts following strong employment data. In particular, UK bond markets reacted negatively to concerns about a possible domestic recession.

UK bond markets signal investor concerns

Investor sentiment towards the UK, already weak, deteriorated during the week. 10-year Treasury bond yields (which are the interest rates that the government pays on its loans and move in the opposite direction to bond prices) rose to their highest level since 2008. The pound also weakened against the dollar. While bond yields have recently been rising across major developed economies, the UK has a distinct set of problems. Here, investors are concerned about the government's fiscal credibility. Its spending targets are ambitious at a time of weak economic growth, falling business confidence and rising inflation. Many analysts believe the UK's vulnerability was exacerbated by last November's budget and could lead to higher borrowing costs and further tax rises unless government spending is reduced.

UK retailers add to worries of a pending economic contraction

Shares in a number of major UK high street retailers fell despite reporting respectable sales over the recent holiday period. Their accompanying statements highlighted domestic economic challenges and the increase in costs due to the rise in national insurance rates, a levy on employees. Critics of the Labour government's economic strategy argue that this recent tax hike for employers is likely to prove a major factor that will lead to lower wage growth, while it could also limit hiring by companies and lead to higher prices for consumers.

Strong US hiring unhelpful for investors

US job creation in December was much stronger than expected, while the national unemployment rate also fell. On Friday, this contributed to a sell-off for shares and a rise in bond yields on both sides of the Atlantic, a case of 'good news being bad news for investors'. As the US economy is performing well, the number of interest rate cuts expected in 2025 by the US central bank, the Federal Reserve (Fed) is being dialled back, with many investors now expecting a single 0.25% cut during the year. The yield on the benchmark US 10-year Treasury ended the week at its highest level since the end of 2023, which proved supportive for the dollar.

Market moves

Financials, real estate and technology, sectors regarded as highly sensitive to interest rates, weakened in response the strong US jobs data.

The yield on the UK 30-year government bond rose to its highest level since 1998.

Oil prices reached a three-month high. Contributing to this were new US sanctions against the Russian energy sector and lower US crude stockpiles.

What to look out for this week

On Tuesday, US wholesale inflation for December, measured by the producer price index, will be released.

On Wednesday, US fourth quarter earnings/full-year 2024 results season begins with updates from Citi, Goldman Sachs, JP Morgan

On the same day, the December consumer price index (CPI) will be released in both the US and UK.

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

marketing.hwam@handelsbanken.co.uk

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Registered Head Office: No.1 Kingsway, London WC2B 6AN. Registered in England No: 4132340 wealthandasset.handelsbanken.co.uk