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WEEKLY BULLETIN

Financial markets wake up to a headache

Key takeaways

Having ended 2023 on a high note, believing substantial interest rate cuts were on the way, investors have begun the new year with a bit of a hangover.

- Investors ended 2023 confident that a spate of interest rate cuts were incoming in the US. However, the latest meeting minutes from the US central bank's leading policymaker committee (released last week) suggested that markets may have run a little ahead of themselves. The minutes showed that officials at the US Federal Reserve (Fed) expect to hold interest rates elevated for some time, while they ensure that inflation has been brought under control. This was a blow to market confidence, and asset prices in stock and bond markets fell accordingly.
- The week also played host to a number of economic updates, including the latest US jobs data. Figures for December showed more resilience than expected in employment markets, although below the surface there was evident weakness in areas like household survey data, plus a drop in the employment participation rate (meaning that fewer people are working or actively looking for work). It's also worth noting that a significant proportion of new hiring is taking place in the public (rather than private) sector.
- Meanwhile, the release of the latest round of US private sector survey data (the Purchasing Managers' Index, or PMI) covering December pointed to contraction in the US manufacturing sector, and a disappointing services sector. In keeping with these results, weakness does appear to be emerging in the US economy (the most influential in the world), as the lagged economic impact of interest rate hikes in 2022 and 2023 begins to hit home.
- Turning to global supply chain news, shipping issues in the Red Sea continued. Since late last year, a rebel group from Yemen has been attacking shipments passing through this vital global trade route. Danish shipping giant Maersk announced on Friday that it will extend its diversion of vessels from the Red Sea route for the foreseeable future as a result. Shipping rates have now risen meaningfully, and analysts across the world are watching closely for signs of any ongoing impact to global supply chains, which have suffered hugely in recent years due to the COVID-19 crisis.

Market moves

The new year opened with some market weakness, as markets sobered up to the realisation that they may have been overoptimistic about interest rate cuts in 2024.

Stock market performance was weaker in most global regions, with the share prices of smaller businesses and the technology sector among the main detractors.

Bond prices fell on both sides of the Atlantic, with bond yields (which always move in the opposite direction to bond prices) rising.

The gold price was slightly weaker, while the oil price remained low.

What to look out for this week

A selection of national inflation updates are due this week, including the US, China and Japan.

The next 'quarterly earnings season' begins, as the largest US-listed businesses announce their earnings for the final three months of 2023 and their outlooks for the period ahead.

Market performance (as at 5 January 2024)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,205.5	-0.4%	-0.4%	-0.4%
MSCI United Kingdom Mid Cap	1,299.9	-2.1%	-2.1%	-2.1%
MSCI United Kingdom Small Cap	373.5	-2.7%	-2.7%	-2.7%
MSCI World (GBP)	2,431.4	-1.5%	-1.5%	-1.5%
S&P 500 (GBP)	4,697.2	-1.5%	-1.5%	-1.5%
MSCI Japan (GBP)	1,462.4	-1.1%	-1.1%	-1.1%
MSCI Europe ex-UK (GBP)	1,673.8	-1.3%	-1.3%	-1.3%
MSCI Pacific ex-Japan (GBP)	1,588.9	-2.7%	-2.7%	-2.7%
MSCI Emerging Markets (GBP)	60,601.8	-2.1%	-2.1%	-2.1%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,027.3	-2.0%	-2.0%	-2.0%
BoA Merrill Lynch Index-Linked Gilts	418.3	-3.2%	-3.2%	-3.2%
BoA Merrill Lynch £ Corporate	406.6	-1.6%	-1.6%	-1.6%
Commodities				
Oil (West Texas Intermediate, GBP)	$73.8	2.6%	2.6%	2.6%
Gold (GBP)	$2056.4	-1.1%	-1.1%	-1.1%
S&P / GSCI (GBP)	3,388.3	1.2%	1.2%	1.2%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.