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WEEKLY BULLETIN

Mixed US employment news creates a central bank quandary

Key takeaways

August's US employment report delivered confusing signals for the US central bank (and financial markets) to digest. Meanwhile, Europe received some worrying inflation news.

- The latest monthly employment report in the US was released on Friday, and painted a mixed picture for August. Slightly more jobs were added to the US economy over the month than had been predicted, and growth in average hourly wages continued to pick up the pace, pointing to ongoing strength in the labour market. However, the unemployment rate also rose to 3.8%. In addition, previously released figures for June and July's reports were updated – the number of jobs added in these months was lowered substantially on revision. These latter points suggest some weakening, creating a mixed picture overall.
- Given that the US central bank has been trying to slow down the labour market, these mixed messages are challenging to interpret. According to signals sent via prices in bond markets, financial markets believe that August's employment report lowers the chances of further interest rate hikes in the US. Indeed, we believe that most central banks in the developed world are now close to the high point for interest rates this time around.
- On this side of the Atlantic, last week also played host to the latest inflation figures in Europe. Price rises in the euro area had previously appeared to be slowing down, but August's data indicated that inflation could be picking up the pace again. Consumer prices rose by 5.3% versus the same period last year, with higher energy prices the main culprit.
- Across the English Channel, data on home shores from the British Retail Consortium suggested that price rises in UK shops have slowed to their lowest pace since October 2022. However, given the risks facing exports from Ukraine (one of the world's biggest producers of critical crops like wheat, barley, maize and sunflower oil), a rapid slowdown in price rises from here looks unlikely.

Market moves

Both bond and stock markets delivered positive returns last week, despite a lacklustre month across financial markets as a whole.

Traditional energy markets also performed well, with production cuts from oil suppliers (designed to boost the price of oil) doing their job well.

What to look out for this week

Some central banks will be in the spotlight this week, as the Reserve Bank of Australia and the Bank of Canada are due to announce their latest interest rate decisions (no changes are expected).

In a relatively quiet week for planned economic updates, the data due for release includes trade figures for China and Germany.

Market performance (as at 1 September 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,127.7	1.8%	0.4%	2.6%
MSCI United Kingdom Mid Cap	1,239.6	3.1%	-0.1%	12.7%
MSCI United Kingdom Small Cap	360.6	2.3%	-0.3%	2.1%
MSCI World (GBP)	2,343.2	2.2%	0.5%	11.2%
S&P 500 (GBP)	4,515.8	2.0%	0.6%	13.4%
MSCI Japan (GBP)	1,432.5	3.6%	0.8%	9.0%
MSCI Europe ex-UK (GBP)	1,622.2	1.1%	-0.1%	8.8%
MSCI Pacific ex-Japan (GBP)	1,572.7	3.1%	0.0%	-6.4%
MSCI Emerging Markets (GBP)	60,023.3	1.0%	1.0%	0.5%
Bonds				
BoA Merrill Lynch Conventional Gilts	970.2	0.3%	-0.5%	-4.0%
BoA Merrill Lynch Index-Linked Gilts	406.4	0.5%	-0.6%	-5.2%
BoA Merrill Lynch £ Corporate	380.3	0.5%	-0.2%	1.0%
Commodities				
Oil (West Texas Intermediate, GBP)	$85.6	5.7%	2.7%	1.7%
Gold (GBP)	$1940.6	0.8%	0.3%	2.0%
S&P / GSCI (GBP)	3,647.3	1.9%	1.7%	-0.5%

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.

Important Information