18 March 2024

Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Higher US inflation dampens the market mood

Key takeaways

The week played host to significant economic updates in the all-important US economy, setting the scene for uneasy financial market performance.

- The latest US inflation news showed that pricing pressures are unexpectedly high in the world's most influential economy. The Consumer Price Index (or CPI) rose to 3.2% in February versus 3.1% in January. 'Core' CPI, which strips out food and energy costs, rose to 3.8%. The cost of shelter (i.e. rental costs, or equivalent costs for homeowners) was among the main culprits pushing prices higher. This data was echoed by the latest reading for prices paid by US manufacturers (the Producer Price Index, or PPI), which also rose by more than anticipated in February.
- While we maintain our house view that the journey away from high inflation was never likely to be a straight downwards line, two consecutive months of higher-than-expected inflation does present a challenge for the US central bank (the Federal Reserve, or 'Fed'). The Fed has used interest rate hikes as its primary tool in the war on inflation in recent years. Market pricing at the end of 2023 indicated that investors previously expected the Fed to cut rates five or six times, but this has now been reduced to just three times – more in line with the Fed's own expectations. Leading policymakers at the Fed will meet this week, and will also have the latest employment market data to consider (covered in last week's Weekly Bulletin) as they make their next interest rate decision.
- Against this backdrop, financial markets had an uneasy week. The US stock market (gauged by the S&P 500 Index) fell for the second week running – the first time this has happened in 2024. Meanwhile, bond markets were nervous too. The market value of bonds is extremely sensitive to the potential for changes in interest rates, so the suggestion that stubbornly elevated inflation could alter plans for rate cuts later this year was enough to create an uneasy week for bond investors.

Market moves

News of higher US inflation created a challenging week for bond markets, as investors assessed the likelihood that this would affect future interest rate decisions.

Stock markets had a mixed week. For UK-based investors, weakness in sterling cushioned returns from overseas assets, due to the benign effects of moving from stronger overseas currencies into a weaker pound.

What to look out for this week

Given the balance of economic news in play, the US central bank is expected to hold interest rates steady at its policy meeting on Wednesday.

On home shores, UK inflation data will also be released on Wednesday, and the latest Bank of England decision on interest rates will be announced the following day.

Market performance (as at 15 March 2024)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,215.1	0.9%	1.6%	1.0%
MSCI United Kingdom Mid Cap	1,318.4	-0.2%	0.4%	-0.4%
MSCI United Kingdom Small Cap	381.5	-0.2%	2.9%	-0.3%
MSCI World (GBP)	2,634.1	0.7%	0.2%	6.6%
S&P 500 (GBP)	5,117.1	1.0%	-0.2%	7.7%
MSCI Japan (GBP)	1,645.6	-2.7%	-0.8%	7.7%
MSCI Europe ex-UK (GBP)	1,810.6	0.8%	2.4%	5.6%
MSCI Pacific ex-Japan (GBP)	1,612.7	-1.0%	0.2%	-2.0%
MSCI Emerging Markets (GBP)	63,081.6	1.0%	0.8%	1.5%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,014.5	-0.9%	0.4%	-3.2%
BoA Merrill Lynch Index-Linked Gilts	412.4	-0.8%	0.2%	-4.5%
BoA Merrill Lynch £ Corporate	409.9	-0.3%	0.8%	-0.8%
Commodities				
Oil (West Texas Intermediate, GBP)	$81.0	3.7%	1.5%	12.7%
Gold (GBP)	$2163.5	0.8%	4.9%	4.2%
S&P / GSCI (GBP)	3,641.1	4.0%	2.5%	8.9%

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

Handelsbanken Wealth & Asset Management Limited is authorised and regulated by the Financial Conduct Authority (FCA) in the conduct of investment and protection business, and is a wholly-owned subsidiary of Handelsbanken plc. For further information on our investment services go to wealthandasset.handelsbanken.co.uk/important-information. Tax advice which does not contain any investment element is not regulated by the FCA. Professional advice should be taken before any course of action is pursued.

- Find out more about our services by contacting us on 01892 701803 or visiting our website: wealthandasset.handelsbanken.co.uk
- Read about how our investment services are regulated, and other important information: wealthandasset.handelsbanken.co.uk/important-information
- Learn more about wealth and investment concepts in our Learning Zone: wealthandasset.handelsbanken.co.uk/learning-zone/
- Understand more about the language and terminology used in the financial services industry and our own publications through our Glossary of Terms: wealthandasset.handelsbanken.co.uk/glossary-of-terms/

All commentary and data is valid, to the best of our knowledge, at the time of publication. This document is not intended to be a definitive analysis of financial or other markets and does not constitute any recommendation to buy, sell or otherwise trade in any of the investments mentioned. The value of any investment and income from it is not guaranteed and can fall as well as rise, so your capital is at risk.

We manage our investment strategies in accordance with pre-defined risk and reward targets, which vary from strategy to strategy to suit a range of customer needs. Portfolios may include individual investments in structured products, foreign currencies and funds (including funds not regulated by the FCA) which may individually have a relatively high risk profile. The portfolios may specifically include hedge funds, property funds, private equity funds and other funds which may have limited liquidity. Changes in exchange rates between currencies can cause investments of income to go down or up.

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