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Wealth & Asset Management

WEEKLY BULLETIN

Markets are asking Santa for interest rate cuts

Key takeaways

Signs of falling inflation in both the US and Europe encouraged hopes of interest rate cuts last week. Meanwhile, investors remained sanguine about the announcement of an oil production cut.

- There were further signs that inflation is easing off in the US last week. Figures covering October showed that the Personal Consumption Expenditures (PCE) Index dropped back to 3% on a yearly basis (versus 3.4% in September). PCE is closely watched by the market due to its status as a preferred measure of inflation for the US central bank – the Federal Reserve (Fed).
- As a result, comments from leading Fed speakers last week also encouraged hopes of an end to interest rate rises in the US, and even potential rate cuts in early 2024. Fed Governor Waller noted that there was no reason to maintain high interest rates once inflation began to fall, while Fed Chair Powell highlighted that interest rates are now “well into restrictive territory”. Powell also stressed that the full effects of the rate hikes already enacted are probably yet to be felt in the real economy.
- Europe also delivered lower inflation news, with the Consumer Price Index cooling by significantly more than expected, to 2.4% on a yearly basis (versus 2.9% in September) – closing in on the European Central Bank’s 2% target for inflation. Mirroring the response to the latest US inflation news, this gave markets hope that interest rate cuts in Europe could come sooner than previously expected.
- Other economic data updates included a surprise jump in US house prices, US and European consumer confidence, and UK house prices. Meanwhile, private sector survey data (the Purchasing Managers’ Index) indicated that global manufacturing is largely in recessionary territory. Overall, this paints a picture of a slowing global economy with some pockets of resilience.
- Finally, despite a lack of agreement among its members, OPEC (the Organization of the Petroleum Exporting Countries) announced a cut in oil production. In the past, such announcements have often led to a jump in the oil price, with lower supply stoking the demand for oil, but so far the latest announcement has done little to alter market pricing.

Market moves

Bond yields continued to fall last week, meaning that bond prices (which always move in the opposite direction to yields) continued to rise.

It was a good period for riskier asset types like shares, with most regional stock markets performing positively. The share prices of smaller and mid-sized companies led the way higher.

In commodity markets, the price of gold hit record highs. Meanwhile, the price of oil rose only slightly following news of production cuts, though oil currently remains one of 2023’s worst performing asset types.

What to look out for this week

The main event this week will be the release of the latest US employment market data. Markets will be watching this news very closely, in an attempt to predict the next steps for the US central bank.

Market performance (as at 1 December 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,158.2	0.5%	1.0%	4.8%
MSCI United Kingdom Mid Cap	1,256.9	2.1%	1.3%	15.0%
MSCI United Kingdom Small Cap	358.9	0.2%	1.2%	2.5%
MSCI World (GBP)	2,380.9	0.7%	0.8%	13.5%
S&P 500 (GBP)	4,594.6	0.7%	0.8%	15.7%
MSCI Japan (GBP)	1,458.8	0.6%	0.6%	10.6%
MSCI Europe ex-UK (GBP)	1,643.3	0.1%	0.3%	11.2%
MSCI Pacific ex-Japan (GBP)	1,515.3	-0.3%	0.2%	-7.0%
MSCI Emerging Markets (GBP)	59,576.4	0.0%	-0.3%	0.5%
Bonds				
BoA Merrill Lynch Conventional Gilts	991.4	1.0%	0.1%	-1.9%
BoA Merrill Lynch Index-Linked Gilts	402.5	0.3%	-0.2%	-6.1%
BoA Merrill Lynch £ Corporate	394.6	1.2%	0.2%	4.7%
Commodities				
Oil (West Texas Intermediate, GBP)	$74.0	-1.2%	-2.4%	-12.1%
Gold (GBP)	$2045.4	2.1%	0.7%	7.4%
S&P / GSCI (GBP)	3,417.6	-1.1%	-1.0%	-6.9%

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