

1 July 2024



Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

Will economic growth hold back UK interest rate cuts?

Key takeaways

Updated figures indicated that the UK economy grew by more than expected in the early months of 2024. Meanwhile in the US, inflation slowed to its lowest pace in months.

Consumer spending supports UK growth

UK economic growth in the first quarter of 2024 outstripped estimates by the Bank of England. Catalysts included the effects of falling energy prices on inflation and stronger consumer confidence. In particular, UK workers have been benefiting from strong wage growth and the reduction in National Insurance contributions. Despite this, the FTSE 100 weakened over the week as investors worried whether the better economic data might delay an anticipated rate cut by the Bank later this summer. Thursday's impending general election added to the uncertainty.

The strengthening case for a US 'soft landing'?

US inflation data released on Friday revealed that prices were rising at their slowest pace in six months, helped by lower energy prices. While the market's reaction was relatively muted, many investors believe it shows the US central bank is successfully managing to lower the pace of inflation, while not affecting the longer-term prospects for economic growth, the so-called 'soft-landing'.

A pick up in bond yields

Bond markets reversed direction last week, with rises in longer-dated yields in the US, UK and eurozone. Bond yields move inversely to prices, meaning that bond prices fell. UK and French 10-year bond yields rose, ahead of pending national elections. In the US, bond yields rose as domestic inflation data was in line with expectations. This suggests some lingering uncertainty regarding the path of US interest rates in the second half of the year.

Market moves

Financial markets in France continued to weaken in anticipation of a victory for the right wing in the first round of elections on Sunday.

The gap between 10-year Japanese and US government bonds contributed to the yen reaching its lowest level against the dollar in 38 years.

Investors in the US increased the odds of a Republican/Trump victory in November's election following Biden's poor performance in Thursday's debate. Some analysts believe this could lead to higher import tariffs, which would increase inflation.

What to look out for this week

In the UK, the Labour party is expected to comfortably win Thursday's general election. The party is looking to change planning restrictions and increase new home builds to 300,000 annually. The Labour party has also ruled out raising income tax, national insurance, VAT or corporation tax.

The July 4th Independence Day holiday in the US means a shortened working week. Key US economic data releases this week will include a range of employment market updates and private sector survey data.

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

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