US inflation continues to fall

Key takeaways

Global stock market indices made modest progress. UK shares and government bonds were among the worst performers, despite the improving economic backdrop.

US inflation on a downward trajectory

Last week, US CPI (Consumer Price Index) inflation declined to 3.4% in July, from 3.5% in June. It hit 4.2% in May thanks to rampant gasoline prices. Meanwhile, core inflation, which strips out volatile food and energy costs, eased from 2.6% to 2.5%. Elsewhere, US PPI (Producer Price Index) inflation also came in lower than forecast, at just 4.7%. Alongside July's unexpectedly lacklustre US jobs report, and weaker retail sales figures, the news hardened expectations of a rate hold by the Federal Reserve next month, and helped to pare back expectations of further US rate hikes in 2026.

This helped the S&P 500 Index of US companies to hit another record high on Thursday. Even so, US 30-year mortgage rates are the highest they've been in over a year reflecting the impact of the Iran conflict on bond and housing markets.

UK economy boosted by World Cup spending

The UK economy grew by 0.4% in the second quarter, suggesting that British businesses are weathering the potential threat of soaring energy prices. The figure was broadly in line with forecasts and owed much to a bumper June, which saw 0.3% growth thanks mostly to the World Cup. The Office of National Statistics noted that the early weeks of the World Cup boosted activity for restaurants, alcohol and television producers while England's extended run in the competition, and the 'feel good' factor it delivered, helped to sustain the boost in hospitality spending. Economists were quick to point out the short-lived nature of the "seasonal quirks" at play.

Meanwhile, the Bank of England warned inflation could rise to 3.2% by the year end with Treasury figures now suggesting that the Strait of Hormuz crisis could reduce UK GDP growth to just 0.3% in 2027 if it isn't resolved.

Europe's quiet earnings story

Although the record numbers from the latest US earnings season have stolen the headlines, stock markets in Europe are also heading for their best earnings season since 2022. The STOXX Europe 600 Index, which tracks 600 large, medium, and small companies across 17 European countries, is now on course to report aggregate earnings growth of 23.4%, according to the latest data.

Second-quarter profit expectations for Europe's blue-chip companies have risen for eight consecutive weeks thanks to soaring energy and materials sector profits. The former are expected to see their annual profits more than double, while basic materials stocks are thought to be the second-fastest growing sector. Absent energy stocks, earnings growth for STOXX 600 companies is forecast to be a more modest 12.3%.

For more in-depth commentary from our investment team, please see our latest Investment Views article and Quarterly Outlook video.

Market moves

Global shares made modest progress. While UK and European shares declined, US shares were flat.

Emerging market and Japanese shares outperformed those of western markets with strong gains.

Both UK and US government bonds suffered losses leaving them in negative territory for the year. Meanwhile, gold added 0.8%.

What to look out for this week

Today brings GDP numbers for Japan and US manufacturing data.

Tuesday promises UK unemployment and European economic sentiment numbers alongside US industrial and manufacturing data.

The latest UK (RPI) and PPI (or 'factory gate') inflation numbers are due Wednesday, alongside European inflation data.

Friday brings Japan's latest inflation reading alongside a slew of PMI (purchasing managers index) data for Australia, Japan, India, the US, Europe and the UK.

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

marketing.hwam@handelsbanken.co.uk

Important Information

Handelsbanken Wealth is a trading name of Handelsbanken Wealth & Asset Management Limited which 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 objectives, which vary depending on the strategy's risk profile.

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.

This document has been issued by Handelsbanken Wealth. For Handelsbanken Multi Asset Funds, the Authorised Corporate Director is Handelsbanken ACD Limited, which is a wholly-owned subsidiary of Handelsbanken Wealth, and is authorised and regulated by the Financial Conduct Authority (FCA). The Registrar and Depositary is The Bank of New York Mellon (International) Limited, which is authorised by the Prudential Regulation Authority and regulated by the FCA. The Investment Manager is Handelsbanken Wealth, which is authorised and regulated by the FCA.

Before investing in a Handelsbanken Multi Asset Fund you should read the Key Investor Information Document (KIID) as it contains important information regarding the fund including charges and specific risk warnings. The Prospectus, Key Investor Information Document, current prices and latest report and accounts are available from the following website: wealthandasset.handelsbanken.co.uk/fund-information/fund-information/, or you can request these from Handelsbanken Wealth or Handelsbanken ACD Limited: 25 Basinghall Street, London EC2V 5HA or by telephone on +44 01892 701803.

Registered Head Office: 25 Basinghall Street, London EC2V 5HA. Registered in England No: 4132340

wealthandasset.handelsbanken.co.uk