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Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

Stock markets rise, but so does political uncertainty

Key takeaways

Investors welcomed the clear-cut result of the UK election, in contrast with continuing uncertainty in France and the US. Weak US data continues to point to a September interest rate cut.

Is the UK now a beacon of investor stability?

The pound strengthened against the dollar and domestically focussed UK shares rallied following the overwhelming victory for the Labour party in the general election. The yield on UK 10-year government bonds slipped (and the bond price rose) as investors strengthened bets that the Bank of England would cut interest rates in August. The transfer of power in the UK to a party with a strong majority contrasts with growing uncertainty regarding President Joe Biden's candidacy in November's US presidential election and the inconclusive result of parliamentary elections in France at the weekend.

Weak economic data in Germany was unexpected

Despite expectations of an improvement, data showed that German industrial production declined in May. The key contributors were falling production in the automotive sector, as well as weakness in construction. Meanwhile inventories (the goods and raw materials held by businesses) are at record levels, while their orders are weak. The high number of public holidays in Germany during May (as well as France, where May industrial data was also lacklustre) may have exacerbated the situation, but this was the fifth monthly drop this year. The slowing of the US economy, as well as the recently announced provisional EU tariffs on Chinese electric vehicles, could likely continue to dampen business confidence.

In the US, bad data is good news for rate cuts

It was a holiday shortened week in the US, but weak economic data releases supported expectations that the US Federal Reserve (Fed) will cut interest rates later this year, and contributed to a sell-off for the dollar. Earlier in the week, the service sector survey data - the ISM services index - registered a worse than expected contraction. On Friday, data also revealed that the historically low US unemployment rate had crept up, despite expectations it would be unchanged on the month before. In response, 10-year US government bond yields fell (and bond prices rose) as investors raised bets that the Fed would reduce interest rates in September.

Market moves

UK investments had a good week, with the domestic focussed FTSE-250 Index ending the week at a near two-year high. Housebuilders performed strongly.

With weaker data supporting the case for interest rate cuts, growth shares in the US continued to lead the market higher.

Defeat for the far-right in France's parliamentary elections meant there was no outright winner, increasing political instability until a government is formed.

What to look out for this week

The US 'corporate earnings season' begins this week, with businesses reporting their latest financial results and outlooks. Investors will want to see that results justify share price valuations at near three year highs.

Fed chair Jerome Powell's semi-annual update to Congress takes place on Tuesday and Wednesday, coinciding with the release of the US Consumer Price Index (inflation data) for June.

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

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