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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Uncertainty returns over the timing of interest rate cuts

Key takeaways

In a week when Prime Minister Sunak announced the UK general election for 4 July, financial markets lost some momentum as economic data prompted a reassessment of central bank policy.

Bumpy path to lower interest rates

Strong economic data last week cast doubt on the chance of short-term cuts in interest rates. In particular, business conditions data (as measured by the indicative Purchasing Managers Indices) for May on both sides of the Atlantic came in higher than expected, and this strength was cemented by the fall in the US initial jobless claims number, along with an upward revision in the University of Michigan's final consumer sentiment index. Much as the positive data was welcomed, it also led to a fresh reassessment about how rapidly central banks would be able to cut interest rates.

UK inflation came in higher than forecast but is heading in the right direction

The headline inflation rate in the UK (as measured by the Consumer Price Index, or CPI) came in at 2.3% year-on-year, marginally higher than expectations of 2.1%, but importantly, the lowest reading since the summer of 2021. Core inflation, which excludes energy and food, came in at 3.9% year-on-year, down from 4.2% in March. Inflation in the services sector was higher at 5.9% year-on-year, but part of that will have been driven by a large rise in restaurant and hotel prices which were notably firmer as hospitality businesses looked to pass through April's 10% rise in the National Living Wage. Additionally, April's inflation numbers are generally volatile as many bills, such as mobile phone contracts, and cable and satellite packages, impose annual increases during that month.

UK and US on a divergent interest rate path

Financial markets appear to be assigning a similar interest rate path for the UK and US, however, the UK economic backdrop looks more like Europe and less like the US. The US economy is expected to grow at 2.5% during 2024 with inflation running at over 3%; in contrast, the UK economy is expected to grow at 0.5% in 2024 with inflation running close to the Bank of England's 2% target rate. There is therefore a stark difference between the starting point and end point for the US and UK economies. This could create an opportunity for the Bank of England to cut interest rates ahead of the US central bank.

Market moves

Major stock markets were flat to down over the past week as uncertainty returned around the timing of interest rate cuts. US shares were broadly flat for the week though, helped by another strong set of earnings results from technology giant, Nvidia.

Bonds gave back some of their recent gains in both the government and corporate sectors, and it was a poor week for gold, but the metal is still up 13% year to date.

What to look out for this week

All eyes will be on the April US core Personal Consumption Expenditures price index on Friday; this core index is a good indication of the underlying inflation trend as it excludes food and energy, where prices are generally more volatile.

Elsewhere, preliminary inflation data for is released in Germany on Wednesday, and in France, Italy and the Eurozone on Friday.

In a busy election year, this week sees the South African election on Wednesday, the last leg of the Indian elections on Saturday, and the Mexican equivalent on Sunday.

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

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