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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

# Interest rate cuts in Europe at last. Where next?

## Key takeaways

Rate cuts, finally. Yet the ECB's decision to cut provides little medium-term clarity about eurozone inflation. Likewise, US data remains mixed.

### ECB cuts rates for first time since 2019

The European Central Bank's (ECB) decision to cut its main interest rate for the first time since 2019 was expected, supporting European stocks over the week. This was the first time the ECB had cut interest rates since 2019. The bank's accompanying statement explained that the decision was in response to the slowdown in inflationary pressures ('disinflation') across the eurozone. Yet the ECB also noted that strong eurozone wage growth would likely remain elevated into 2025, hampering efforts to reduce annual inflation to the targeted 2%. This may cloud the extent and timing of future interest rate decisions by the bank.

### Mixed data messaging in the US

In the US, investors are having a more difficult time gauging when the Federal Reserve (Fed), the country's central bank, will cut interest rates. Some recent economic data has been conflicting with evidence of slowing inflationary pressures being offset by economic strength elsewhere, such as in better-than-expected job creation. This is contributing to greater investor caution as to when the central bank will finally decide to act, and reflected in the maxim 'higher for longer'. Consensus expectations are that the Fed could start to cut interest rates in September.

### The oil price continues to ease

Though it staged a recovery by Friday, in US dollar terms the oil price weakened over the week and remains significantly below its 2024 high of $90/barrel. A number of factors seem to be at play: a possible reduction of self-imposed production cuts by the group of oil producing nations (OPEC+) could in turn lead to excess market supply. A reduction in tensions across the Middle East and concerns about possible slowing oil demand, should global economic growth weaken, may also have contributed.

## Market moves

Global stock markets remain close to their all-time highs, underpinned by the US where three companies combined (Microsoft, Nvidia, Apple) are now worth more than the total Chinese stock market.

Financial markets across Europe ended the week higher, ahead of results for the European Parliamentary elections at the weekend. Eurosceptic parties performed well, contributing to some early weakness for the euro, as well as higher French bond yields.

A relatively quiet week for bond markets, as investors wait for more interest rate news.

## What to look out for this week

The latest US inflation data (measured by the Consumer Price Index, or CPI) will be released this week, and could influence market expectations for future interest rate cuts. The Fed also meets this week, but is not expected to opt for rate cuts until a later date.

In the UK, Tuesday's jobs report may also provide some clues whether inflationary pressures are easing sufficiently for the Bank of England to cut interest rates for the first time since the start of the COVID-19 pandemic.

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

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