

**WEEKLY BULLETIN**

# Hopes for rate cuts put a spring in the market's step

## Key takeaways

Financial markets enjoyed an upbeat week as February drew to a close, with the market mood boosted by benign inflation news and hopes for future US interest rate cuts.

- Stock market investors were heartened last week by news that personal consumption expenditures – or 'PCE' – had fallen in January in line with expectations. PCE is the US central bank's preferred measure of inflation, so this update calmed investor nerves, particularly as another measure of inflation (the Consumer Price Index, or CPI) came in higher than expected earlier in the month. Investors had feared that that stubbornly higher inflation could push back the potential start date for future US interest rate cuts.
- At the end of the week, the latest private sector survey data (the Purchasing Managers Index, or PMI) suggested that the US manufacturing sector had weakened by more than expected in February. This appeared to further encourage investor hopes for US interest rate cuts sooner rather than later, in anticipation that the central bank (the US Federal Reserve, or 'Fed') would lower rates in an effort to boost economic activity.
- This drop in manufacturing sector survey data also boosted bond markets. Bond prices were further aided by comments from a senior member of the Fed, Christopher Waller, suggesting that the US government should hold more short-dated bonds.
- Turning to Europe, there was more inflation news, measured by the Harmonised Index of Consumer Prices (or HICP). According to the HICP, pricing pressures in mainland Europe lowered from 2.8% in January to 2.6% in February, pointing to a downwards trajectory. Unemployment in the region was reported to be 6.4%, which was in line with expectations.

## Market moves

Bond markets had a relatively quiet week, though prices were boosted on Friday by lacklustre manufacturing sector data. Bond yields (which move in the opposite direction to prices) fell slightly over the course of the week.

Stock markets remained buoyant, further invigorated by the latest US inflation figures, which added to investor hopes for US interest rate cuts sooner rather than later.

This also led to a jump in the gold price, hitting a new high for the year.

## What to look out for this week

US politics are likely to return to the spotlight next week, with electoral contests on 'Super Tuesday' likely to confirm the Republican and Democrat nominations for US president. Incumbent Joe Biden and his predecessor Donald Trump are the overwhelming front-runners.

Other highlights this week include the release of the UK Budget on Wednesday, the European Central Bank's policymaker meeting on Thursday, and the latest US jobs report on Friday.

## Market performance (as at 1 March 2024)

	Index Levels	Last Week	Month to Date	Year to Date
<b>Equity</b>				
MSCI United Kingdom	2,206.3	-0.1%	0.7%	0.1%
MSCI United Kingdom Mid Cap	1,319.9	-0.7%	0.4%	-0.5%
MSCI United Kingdom Small Cap	376.7	0.7%	1.5%	-1.6%
MSCI World (GBP)	2,638.2	1.1%	0.8%	7.2%
S&P 500 (GBP)	5,137.1	1.2%	0.8%	8.8%
MSCI Japan (GBP)	1,677.7	2.5%	1.1%	9.8%
MSCI Europe ex-UK (GBP)	1,777.6	0.5%	0.7%	3.8%
MSCI Pacific ex-Japan (GBP)	1,621.6	0.5%	0.4%	-1.8%
MSCI Emerging Markets (GBP)	62,526.3	-0.1%	0.3%	1.0%
<b>Bonds</b>				
BoA Merrill Lynch Conventional Gilts	1,012.8	0.5%	0.2%	-3.4%
BoA Merrill Lynch Index-Linked Gilts	412.0	2.5%	0.1%	-4.6%
BoA Merrill Lynch £ Corporate	407.2	-0.1%	0.2%	-1.4%
<b>Commodities</b>				
Oil (West Texas Intermediate, GBP)	\$80.0	3.2%	2.1%	12.0%
Gold (GBP)	\$2049.8	1.3%	0.1%	-0.6%
S&P / GSCI (GBP)	3,569.6	2.8%	1.2%	7.5%

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