

**WEEKLY BULLETIN**

Is the US economy as resilient as it looks?

Key takeaways

Last week saw markets reacting to news of apparent continued strength in the US economy, as well as ongoing attacks on vessels in the Red Sea.

- On Thursday, news emerged that the US economy had grown by 3.3% in the final quarter of 2023 – more than economists had predicted. Indeed, the US economy was more resilient than expected throughout the year, growing by 3.1% across 2023 as a whole – the fastest-growing developed economy in the world. The latest consumer spending data (Personal Consumption Expenditure, or PCE), also released last week, showed that US consumer spending had also risen by more than expected (0.7%) in December.
- Investors had been predicting a spate of interest rate cuts in the US throughout 2024, and have been slightly perplexed by these apparently strong economic updates. The extent of market expectations for rate cuts this year fell back a little in the wake of this data.
- However, we believe that there are signs of weakness under the bonnet in the US economy. For example, US employment market data suggests that while businesses have not been laying off their staff, they've been hiring fewer people recently, indicating that businesses may simply be hoarding labour for the time being. Also, forward-looking economic data is currently relatively pessimistic about the outlook for the US economy. This includes survey results, which tend to be much more focused on business and consumer expectations for the period ahead, rather than data covering the period just gone. Taken together, factors like this support the argument for interest rate cuts later this year, as the US economy slows down.
- Across the Atlantic Ocean, the European Central Bank (ECB) made a decision on interest rates last week – deciding to hold rates steady for the time being. The ECB's leading policymakers noted that inflation was generally falling back in line with expectations, despite pricing pressures rising in December, and is expected to fall further over the course of 2024. Financial markets expect interest rate cuts to emerge throughout the coming weeks and months.
- In commodity markets, the oil price has been lacklustre over the past few months, but rose last week amid geopolitical tensions in the Middle East and ongoing issues with attacks on shipping lanes passing through the Red Sea.

Market moves

UK government bonds gave back a little more of their hard-won 2023 gains last week, with bond prices weakening and bond yields (which always move in the opposite direction to prices) rising.

Global stock market performance so far this year has largely been driven by the US. However, last week also saw share price gains in the UK, Europe and developing economies.

The oil price strengthened, seemingly in response to Houthi attacks on Red Sea shipping routes.

What to look out for this week

All eyes will be fixed on a post-meeting press statement due to be issued by the US central bank on Wednesday. While interest rate cuts are not expected just yet, the statement itself could reveal more about what comes next.

Market analysts will also be closely watching January's US employment data, which will be released this Friday.

Market performance (as at 26 January 2024)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,185.9	2.2%	-1.3%	-1.3%
MSCI United Kingdom Mid Cap	1,306.0	2.3%	-1.6%	-1.6%
MSCI United Kingdom Small Cap	376.3	3.3%	-1.8%	-1.8%
MSCI World (GBP)	2,516.7	1.0%	1.8%	1.8%
S&P 500 (GBP)	4,891.0	0.7%	2.8%	2.8%
MSCI Japan (GBP)	1,533.7	-1.0%	1.2%	1.2%
MSCI Europe ex-UK (GBP)	1,713.3	2.7%	0.0%	0.0%
MSCI Pacific ex-Japan (GBP)	1,591.5	1.9%	-3.9%	-3.9%
MSCI Emerging Markets (GBP)	59,964.1	1.1%	-3.5%	-3.5%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,008.6	-0.4%	-3.8%	-3.8%
BoA Merrill Lynch Index-Linked Gilts	400.6	-0.7%	-7.3%	-7.3%
BoA Merrill Lynch £ Corporate	404.1	0.1%	-2.2%	-2.2%
Commodities				
Oil (West Texas Intermediate, GBP)	\$78.0	5.5%	8.7%	8.7%
Gold (GBP)	\$2018.5	-0.8%	-2.7%	-2.7%
S&P / GSCI (GBP)	3,533.7	4.0%	5.8%	5.8%

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