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WEEKLY BULLETIN

Upbeat investors have their attentions divided

Key takeaways

A positive mood struck financial markets this week, but investors didn't know where to look next. On the one hand, a wave of major company earnings reports; on the other, inflation data with the potential to influence US interest rate decisions.

Company earnings disappoint, but markets see good news ahead

We're in the midst of the latest quarterly 'earnings season' – the period when large US businesses announce their earnings for the previous three-month period, and outline their outlooks for the quarter ahead. So far, company earnings have disappointed, but market analysts have been upgrading their expectations for the rest of 2024, leading to a perversely upbeat market mood. For example, despite disappointing earnings, Tesla's share price rallied by 20% due to the prospect of cheaper models coming to the market quicker and more efficiently than expected. Investors remain highly preoccupied by the prospects of the so-called 'Magnificent Seven' – the group of extremely large US businesses including Tesla, Microsoft and Nvidia.

The US economy grew by less than expected in early 2024

US companies weren't the only ones delivering hit-and-miss performance results last week: the US economy itself disappointed economists with news of slow growth in the first quarter of the year. Analysts had expected annualised growth of 2.5% to the end of March, but the reality was growth of just 1.6%. Weaker trade and export figures were blamed for the slowest growth in the US economy since early 2022.

Markets are increasingly pessimistic about US interest rate cuts

Besides their fixation on the 'Magnificent Seven', investors have continued their preoccupation with the next steps for US interest rates. Expectations for the timing and scale of interest rate cuts have fallen since the start of the year, and markets now expect fewer interest rate cuts than the US central bank itself expects to deliver. Central banks in Europe and the UK are now expected to begin cutting interest rates sooner than their US peers.

US inflation has stuck around

One of the main reasons for this relative pessimism on surrounding the US interest rate cuts is the unexpected stubbornness of US inflation. Data released last week – Personal Consumption Expenditures (or PCE) – is the US central bank's preferred measure of inflation. The annual rate of PCE for the first quarter of 2024 was higher than expected (3.7% versus 3.4%). However, inflation data is always multilayered, and the monthly (rather than annualised) version of the same data was in line with expectations, leading some analysts to hope that US inflation could actually be plateauing. The US central bank announces its latest interest rate decision this week.

Market moves

In a more upbeat week for stock markets, share prices in developing countries and the UK were among the top performers.

Bond markets continued to be buffeted by fears about inflation, and what ongoing pricing pressures could mean for US interest rates.

The price of gold faltered after a strong rally, although financial returns for gold are still firmly positive for 2024 so far.

What to look out for this week

For markets, the main focal point of the week will be the US central bank's decision on interest rates, which will be delivered with an accompanying press conference on Wednesday.

A range of economic data is also due for release this week, including updates on US consumer confidence, inflation and economic growth data in Europe, and private sector survey data from the US and China.

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

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