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Wealth & Asset Management

WEEKLY BULLETIN

The US economy is too strong for the market's liking

Key takeaways

Markets continued their uneasy start to April, reacting to geopolitical risks, cautious technology industry earnings news, and a little too much resilience in the US economy.

Geopolitics and interest rate worries are boosting market volatility

Volatility in financial markets (the frequency and size of asset price swings) reached a 6-month high last week, driven by a combination of investor concerns. In the near term, another spike in tensions and conflict in the Middle East has added uneasiness to the global picture. However, it's worth noting that financial market responses to geopolitical issues tend to be relatively short-lived. Over the medium and long term, markets are much more likely to be affected by economic updates, especially from the US…

Investors not encouraged by the latest US economic news

US retail sales data for March was released last week, and beat analyst expectations. While this sounds like good news, it rang alarm bells for investors, who remain watchful for any data which could allow the US central bank to begin cutting interest rates. Despite two years of sharp interest rate rises (designed to slow down economic activity and lower inflation) the US economy remains resilient. US inflation has proven more stubborn than expected, and as a result, investor hopes for a slew of interest rate cuts in 2024 continue to falter.

Inflation still falling in the UK and Europe

For the UK and mainland Europe, inflation is coming down much more sharply than in the US. UK inflation (measured by the Consumer Price Index, or CPI) fell sharply in March, to 3.2%, taking UK CPI below US CPI for the first time since 2022. As a result, expectations remain higher for interest rate cuts in Europe and the UK this year, and it looks increasingly possible that rate cuts could happen first on this side of the Atlantic.

Technology share prices hit by concerns about future earnings

The world's leading tech firms have towered over the US market for some time, forming a substantial portion of the so-called 'Magnificent 7' – the small group of ultra-large businesses which have dominated financial market performance in recent history. However, the latest updates from US tech businesses have created cause for concern among investors, due to cautious commentary around the prospect for future earnings. Semiconductor firms – including chip giant Nvidia – have seen sharp falls in their share prices.

Market moves

Since the start of the month, almost all major stock markets have fallen, and bond prices have weakened too.

Gold has been performing strongly, living up to its role as a 'safe haven' asset in times of geopolitical strife. The gold price has also been boosted by high demand in China.

What to look out for this week

In a big week for economic news, data released over the coming days will include a US inflation update, consumer confidence figures for the UK and Europe, and an early look at private sector survey data for manufacturing and service sectors around the globe.

As the regular 'corporate earnings season' continues apace, almost 180 of the largest businesses in the US market will release their latest updates, including details of their company earnings and their outlook for the period ahead.

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

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