20 May 2024

Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

A growing list of reasons to cut UK interest rates

Key takeaways

Weaker UK employment figures added weight to the argument that the Bank of England could begin to cut interest rates at its next meeting. Elsewhere, markets took the latest US inflation news and Chinese tariff updates in their stride.

The UK jobs market appears to be slowing down

On home shores, there were signs of widespread cooling in the UK jobs market. The latest figures showed that UK unemployment rose to 4.3% in the three months to March, and private-sector wage growth has also been easing off. Given that strong employment markets can push inflation higher, and the Bank of England has been watching for signs of ongoing lower inflation, this latest news could give the Bank more confidence to cut interest rates over the coming months.

Different interest rate expectations in the UK versus the US

The UK currently awaits the next interest rate decision from the Bank of England – exactly a month away today, on 20 June. The Bank is generally expected to begin cutting rates at this next meeting, or at the one after (in August). Across the Atlantic, expectations are weaker, with the US Federal Reserve (Fed) currently anticipated to cut rates only twice in 2024.

No surprises in the latest US inflation news

Sticking with the US, the latest update on US inflation, measured by the Consumer Price Index (or CPI) was released last week. CPI rose slightly in April, and it’s increasingly clear that the road back to lower inflation could take some time for the world’s most influential economy. An awareness of this reality is no doubt contributing to caution among Fed policymakers, who need to see more evidence that inflation is cooling consistently before making any interest rate cuts. Nevertheless, this small rise in CPI was in keeping with the market’s expectations, and the news contributed to an upbeat mood among bond and stock market investors alike.

The Biden administration places new tariffs on Chinese goods

The US government announced new tariffs on $18bn of selected Chinese products, such as electric vehicles and batteries. These are more targeted tariffs than those being touted by Republican presidential candidate Donald Trump, but should probably be seen as electioneering rather than a major shift in US policies on China. The tariffs will affect just 0.5% of China's total exports, and their impact on growth for Chinese exports is likely be minimal.

Market moves

Most regional financial markets continued their upbeat run last week.

However, returns from global investments for UK-based investors were lessened slightly due to strength in the value of the UK currency.

This meant that returns from these investments appeared weaker once translated from overseas currencies into stronger sterling.

What to look out for this week

The latest UK inflation data will be released on Wednesday, followed by consumer confidence figures and retail sales numbers on Friday. Leading policymakers at the Bank of England could be on the lookout for further reasons to cut UK interest rates at their next meeting in June.

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

marketing.hwam@handelsbanken.co.uk

Important Information

Registered Head Office: No.1 Kingsway, London WC2B 6AN. Registered in England No: 4132340 wealthandasset.handelsbanken.co.uk