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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Shares sell-off accelerates, bond markets rally

Key takeaways

A volatile week in financial markets culminated in a global sell-off for stock markets on Friday as inflationary concerns have been replaced by fears of a US-led recession.

Volatile swings in asset prices and sentiment

A volatile week for shares culminated in share-price falls on Friday. Weak economic data releases and a number of disappointing results in the US reinforced fading investor appetite for risk, as fears spread of a US-led recession. The technology-heavy Nasdaq index ended the week 10% below its July high in dollar terms, while the so-called 'fear' index (the CBOE Volatility Index – a measure of market expectations for volatility) reached its highest level since March 2023. An investor flight to safety, supported by expectations of an interest rate cut by the US central bank in September, saw the yield on the US 10-year Treasury (government bond) fall from 4.4% at the beginning of the month to below 4% (as a reminder: in bond markets, prices and yields are inversely related).

Another major central bank cuts interest rates

The Bank of England became the fifth major central bank to begin cutting interest rates again. From a 16-year high of 5.25%, rates were cut by 0.25%. It was a close decision by the Monetary Policy Committee, the body which decides on UK interest rates, voting 5-4 in favour of a reduction. What swung the decision was the fact that while recent services inflation (which includes wage growth) has been higher than expected, goods inflation was slightly lower, and so the effects effectively cancelled each other out. The Bank also took the opportunity to increase its economic growth forecast for the UK, now expecting growth to increase by about 1.25% in 2024, compared with its previous estimate of 0.5%.

The Japanese yen contributes to the week's mayhem

For three decades, overseas investors have grown used to the attractions of 0% interest rates on borrowing in the Japanese yen. These funds were then used to buy risk assets in other currencies, including US Treasuries and technology shares. The decision by the Bank of Japan to increase interest rates by 0.25% has cut off this source of free credit and contributed to a recovery in the value of the yen against major currencies. As a result, many foreign-based investors have been selling their previously interest-free yen-funded investments and repatriating the funds to Japan. A further strengthening in the value of the yen could contribute to more selling for risk assets.

Market moves

The Nasdaq technology index ended the week in negative territory for the fourth consecutive week, the first time this has happened since the end of 2022.

Second quarter earnings results in the technology sector were overshadowed by the subdued growth outlook at some mega technology companies, including Microsoft and Amazon.

Japan's stock market fell sharply, reflecting the adverse effect of a stronger yen on exporters. Japanese shares represented by the Nikkei 225 closed almost 6% lower on Friday. This index has given up almost all the gains made year-to-date.

What to look out for this week

Investors will be watching July data releases from China, including the purchasing managers' index (Monday), exports (Thursday) and inflation (Friday).

The latest US weekly jobless claims figures will be released on Thursday.

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

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