A ‘quiet’ Fed spooks markets

Key takeaways

Gyrating oil prices and a reticent Federal Reserve (Fed) sealed a month of losses for bond markets. Global stock markets also retreated in July, with UK shares among the few to progress.

Mr Warsh’s ‘cold shoulder’ sends shivers

Despite electing to keep US interest rates on hold as expected at the Fed’s July meeting last week, Chairman Kevin Warsh’s taciturn address and refusal to field questions, triggered a sell-off in both US government bonds (Treasuries) and the dollar. Markets have long since become accustomed to Fed guidance. In its absence, the yields on 30-year US Treasuries hit their highest since 2007 (meaning their prices fell) and the dollar hit its lowest level since 2025’s ‘Liberation Day’. Elsewhere, both the S&P 500 Index of US companies and the Nasdaq technology index sold off with US stocks reported to have shed around $1tn in value on the day.

Although the hold in rates was widely anticipated, investors were unsettled by Mr Warsh’s refusal to explain why the Fed hadn’t raised rates, and his ailing credibility is now being priced-in by markets.

Bank of England keeps UK interest rates on hold

The Bank of England also kept interest rates on hold, at 3.75%, last week. Markets interpreted this as a ‘dovish’ stance, namely one that favours reducing interest rates to help boost the economy, and subsequently reduced the odds of a September rate hike from 50% to 30%.

In contrast to his counterpart at the Fed, Bank of England Governor, Andrew Bailey, gave strong guidance, highlighting “tentative evidence that inherited inflation pressure may be weaker than had been presumed”. “Please do not leave this room thinking the Bank of England is edging towards a hike,” he stressed, while emphasising the impact that a credible resolution in the Middle East would have on UK interest rates. With UK services inflation continuing to trend down, and few other signs of domestic inflation, markets are currently expecting only one UK interest-rate hike this year.

Record earnings growth is leading US stock market higher

The S&P 500 Index of US companies is currently on track for its strongest quarter of earnings growth in five years. With over 300 S&P companies having reported on the second quarter, the market is on track for 47.4% annual earnings growth, according to the latest FactSet data. Although technology and energy stocks have led the way, due to the AI buildout and surging oil prices, the earnings growth story isn’t limited to these sectors. Almost 90% of companies reporting so far have beaten earnings expectations, with eight of the S&P 500’s 11 sub-sectors enjoying double-digit earnings growth.

Historically, such robust growth has only been seen coming out of recession, or after major tax reforms. Earnings growth has been bolstered by the mammoth capital expenditure investments being made by the top five US mega technology companies, which are thought to be equivalent to 2.4% of US GDP.

For more in-depth commentary from our investment team, please see our latest Investment Views article and Quarterly Outlook video.

Market moves

US shares were flat for the week leaving global stock markets very modestly ahead.

UK shares outperformed those in Europe, but Japanese shares were the top performers.

UK and US government bonds were almost entirely flat last week leaving both with losses for July. Meanwhile, gold softened by 2%.

What to look out for this week

Monday brings a raft of global manufacturing PMI (purchasing managers’ index) data. PMI services data follow on Wednesday with construction numbers on Thursday.

Tuesday promises US balance of trade numbers, with China delivering the same on Friday.

India’s latest interest-rate decision is due on Wednesday.

Thursday sees US jobless and productivity numbers with the much-watched US non-farm payrolls data due Friday.

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

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Important Information