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**Handelsbanken**

Wealth & Asset Management

WEEKLY BULLETIN

## Lacklustre markets...but still pushing higher

### Key takeaways

Against a fast-moving geo-political backdrop in Europe, most assets apart from oil delivered weak but positive returns. Lower inflation and hopes of a soft landing currently outweigh the threats of a US-initiated tariff dispute.

#### European shares in the spotlight

The benchmark pan-European STOXX Europe 600 Index reacted positively to the near-term easing of the tariff threat from the US, a strong corporate earnings reporting season, as well as news of contact between Presidents Trump and Putin. This contact comes ahead of formal talks between the US and Russia about the Ukraine war, and raises the prospect of an end to the war after three years. A further bright spot was China, where share prices continued to rally, with artificial intelligence-linked companies rising strongly. This helped Hong Kong's Hang Seng Index, which rose by 7% during the week.

#### A higher-than-expected US inflation report for January

On an annualised basis, US core inflation accelerated to 3.3% in January, compared to 3.2% in December. Regarded by many as a sign that US inflationary pressures remain prevalent, it has reinforced expectations that the US central bank, the Federal Reserve (Fed), will retain a restrictive policy on interest rates, perhaps until the second half of this year. The benchmark US 10-year government bond yield rose in response (while the 10-year bond price, which moves in the opposite direction, fell), although it eased off by the end of the week. The prospect of no reduction to US interest rates initially supported the strength of the US dollar, but upbeat, pro-risk investor sentiment (supporting higher risk assets like shares) resulted in the dollar weakening against other major currencies like the euro and pound.

#### Oil price slips on Ukraine peace hopes

Ahead of talks between the US and Russia about an end to the war in Ukraine, the oil price eased, with Brent Crude trading just under \$75 a barrel. If a peace deal between Ukraine and Russia does materialise, this could lead to a lifting of sanctions on the availability of Russian oil, increasing supply and driving the oil price lower. The potential for weaker oil demand, should a reciprocal tariff dispute between the US and the rest of the world occur, is also weighing on sentiment. A lower oil price will have the benefit of keeping inflation down – a positive for the global economy.

### Market moves

The European EuroSTOXX 50 and Germany's DAX share indices reached new all-time highs, with the DAX up almost 10% in the last month.

The gold price continued to push higher, reflecting a weaker US dollar and the possible risks of a trade war.

The dollar eased, back to its level of mid-December 2024.

### What to look out for this week

On Tuesday, UK employment data for December will be released, and is expected to be unchanged at 4.4% month-on-month.

On Wednesday, UK consumer inflation for January is expected to be 2.4% year-on-year – a slowing from December's equivalent 2.5%.

On Saturday, Germany has a federal election to choose a new chancellor and members of the Bundestag (parliament).

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

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