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Wealth & Asset Management

WEEKLY BULLETIN

A strong US jobs market could keep interest rates high

Key takeaways

Last week's news pointed to ongoing strength in the US employment market, despite the US central bank's best efforts to engineer a gentle economic slowdown. In the UK, the Bank of England raised interest rates again, and these hikes are probably not over yet.

- The latest survey reports covering the manufacturing and service sectors in the US showed mixed results for July. These surveys are highly correlated to economic activity, making them a fairly good indicator of what's happening more broadly in the real economy. The manufacturing sector report was weaker than expected, indicating contraction for the ninth consecutive month. The service sector report was also weaker than anticipated, but it signalled that the services sector continues to grow, albeit at a slower pace.
- The US employment market report covering July was also released. The overall unemployment rate dipped slightly, to 3.4% in July (from 3.5% in June), and the number of new job openings fell a little, but from a very high level. Importantly, the average number of job-seekers chasing after each job opening is very low – not even two people per job opening. Meanwhile, 'initial jobless claims' (i.e. new applications for unemployment benefits), which previously appeared to be picking up, have begun to fall again in recent weeks. Overall, the report painted a picture of ongoing strength in the US employment market.
- This stubbornly strong employment picture will worry the US central bank, which is trying to slow down the economy by raising interest rates in order to contain inflation. The report also showed that average hourly earnings rose by more than expected in July – growing at 4.4% – significantly out of sync with the central bank's 2% inflation target.
- In the UK, the Bank of England followed its counterparts in the US and mainland Europe, raising interest rates again last week. From a low point of just 0.1% in November 2021, the UK's benchmark interest rate is now 5.25%. In announcing the change, the Bank's policymakers also made a point of stating that its policies are officially restrictive, increasing expectations that interest rates will be kept at higher levels for longer.

Market moves

Last week saw negative returns for both bond and stock markets, as investors worried that central banks still have more work to do (i.e. raising interest rates to combat inflation by slowing down economic activity).

Sterling weakened against the US dollar, helping returns for UK investors from overseas investments (as returns were translated from a stronger currency to a weaker one), but not enough to offset a spell of poorer performance.

What to look out for this week

In a much quieter week for economic data and market-related news, the main highlights in the coming week will likely include inflation data in the US and China, as well as an update on the UK's economic growth for the second quarter of 2023.

Market performance (as at 4 August 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,156.5	-1.7%	-1.7%	3.1%
MSCI United Kingdom Mid Cap	1,261.7	-2.1%	-1.7%	14.3%
MSCI United Kingdom Small Cap	368.7	-0.7%	-0.9%	4.1%
MSCI World (GBP)	2,326.8	-1.5%	-1.7%	9.7%
S&P 500 (GBP)	4,478.0	-1.4%	-1.6%	11.0%
MSCI Japan (GBP)	1,393.6	-0.9%	-1.0%	7.9%
MSCI Europe ex-UK (GBP)	1,621.7	-1.8%	-1.8%	9.7%
MSCI Pacific ex-Japan (GBP)	1,607.5	-1.9%	-2.6%	-4.6%
MSCI Emerging Markets (GBP)	61,648.0	-1.5%	-1.9%	2.5%
Bonds				
BoA Merrill Lynch Conventional Gilts	971.2	-0.6%	-0.9%	-3.9%
BoA Merrill Lynch Index-Linked Gilts	409.8	-0.9%	-1.1%	-4.4%
BoA Merrill Lynch £ Corporate	380.2	-0.1%	-0.4%	0.9%
Commodities				
Oil (West Texas Intermediate, GBP)	$82.8	3.7%	2.1%	-2.6%
Gold (GBP)	$1942.5	0.2%	-0.6%	1.0%
S&P / GSCI (GBP)	3,571.1	1.1%	0.6%	-3.7%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.