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**Handelsbanken**

Wealth & Asset Management

WEEKLY BULLETIN

## Another risk-off week for investors

### Key takeaways

Smaller company shares continued to outperform in a risk-averse market. Earnings results presented a mixed picture with many household names, notably in the technology sector, providing disappointing updates.

#### 'Risk-off' sentiment continues to dominate

Stock markets began the month near record highs, yet during the last week the S&P 500 in the US delivered its worst daily performance since February 2023, ~~though it had partially recovered by Friday~~. With investors worn down by the continuing rotation away from the technology and growth sectors, a more widespread sell-off for risk assets took place, accompanied by a rise in market volatility. Disappointing quarterly results in the US from blue chip companies like Alphabet (Google), Tesla and Ford set the tone, overshadowing the release of better-than-expected economic growth data for the second quarter. Elsewhere, weak earnings releases from Europe's luxury goods sector reflected the impact of the slowdown in China, the world's second largest economy.

#### Central bank focus shifts from inflation to avoiding recession

A global easing cycle in developed countries is expected to be well under way during the fourth quarter of the year. Canada's central bank cut its key policy rate by 0.25% for a second consecutive month, taking it to 4.5%. In the US, the rise in unemployment is approaching levels that historically have signalled recession, while inflation pressures have abated, creating an environment for an interest rate cut. However, a rate cut from the US central bank looks unlikely until September as it waits for more supportive data on inflation. Additionally, further interest rate cuts are expected by the Bank of England and the European Central Bank, possibly as soon as August.

#### The German economy continues to struggle

The key Ifo Business Climate Index survey data for July registered deteriorating sentiment across Germany's economy for the third consecutive month. Against the backdrop of worsening geopolitical tensions, which could have a knock-on effect on this export-focused economy, weak order books and high levels of stocks are affecting business confidence. Analysts point to three possible causes of the downturn, none of which will be easily resolved: cheap energy from Russia; low wage subcontractors in Eastern Europe; increasing exports to China. This combination of structural and cyclical difficulties may prove hard to overcome, and contrasts sharply with the Ifo survey improvements registered at the beginning of this year.

### Market moves

Investors were reassured by the US central bank's inflation data for June, reinforcing expectations for a September interest rate cut.

Private sector business activity in the UK during July rose compared to the previous month. Manufacturing growth was the fastest for two years. UK shares rose strongly by the end of the week.

Japan's stock market fell sharply, reflecting the adverse effect of a stronger yen on exporters.

### What to look out for this week

Interest rate decisions by the US central bank (Wednesday) and the Bank of England (Thursday). No change expected in the US, but a 0.25% reduction is forecast by analysts in the UK.

Earnings season continues, with some of the 'Magnificent Seven' reporting – Apple, Microsoft, Meta and Amazon. UK blue chips like HSBC, Barclays, BP and Shell will also report results.

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

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