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WEEKLY BULLETIN

Will the US economy manage a crash-free slowdown?

Key takeaways

A scandalous former (and would-be) US president dominated media headlines last week, but financial markets were far more interested in the latest US economic news...

Trump found guilty in 'hush money' trial, but do markets care?

Over the past few days, media headlines have been filled with the news that former (and would-be) president Donald Trump was found guilty of falsifying business records in order to pay out hush money. While the verdict was damning, it also reportedly boosted Trump's presidential campaign funding, and there is likely to be a messy legal appeals process from here. But while the US is the world's most influential market, it's important to remember that financial markets typically care much more about economic news than political noise. As a result, investors' attention was focused elsewhere throughout the week.

Pricing pressures could be easing in the US

Much more important news from an investment viewpoint included the latest reading of the US central bank's preferred measure of inflation – Personal Consumption Expenditure or PCE. Last week saw the release of the April reading for PCE, which showed that inflation had slowed to its lowest rate this year. 'Core PCE' (a measure which strips out the prices of more volatile items like food and fuel) rose by just 0.2% in April. As a reminder, this does not mean that the costs of goods and services fell in the US in April, but that the pace of price increases slowed down. Separately, the latest US consumer spending figures were lower than expected.

US economic growth is slowing, but does not seem to be crashing

The wide-ranging data which must be collected in order to measure growth across the whole of the US economy takes time to emerge. A fuller set of economic data now suggests that the US economy grew at a rate of 1.3% in the first quarter of this year (January to March), rather than 1.6% as previously believed. This points to an economy in the process of slowing down, and perhaps reaching more sustainable levels of growth: an economy which is slowing, but not crashing. While it remains to be seen if this trend will continue, these initial signs will be encouraging for the US central bank, which has been attempting to slow down the economy (via higher interest rates) to take the heat out of inflation.

Market moves

In sharp contrast to the old adage 'sell in May and go away', May has been a generally positive month for financial markets.

However, the month ended with a testier week, as signs of weaker demand among consumers created some unease among stock market investors, and share prices wobbled accordingly.

It was a topsy turvy few days for bond markets too, as prices weakened early in the week, then rallied as the week drew to a close. (Bond yields always move in the opposite direction to bond prices, and therefore rose at the start of the week before falling as the week ended.)

What to look out for this week

On this side of the Atlantic Ocean, the European Central Bank will be in the spotlight on Thursday, as they announce their latest interest rate decision. Investors hotly anticipate a rate cut.

Returning to US shores: May's US employment statistics will be released on Friday. Most analysts believe the figures will show unemployment holding steady in May, at 3.9%.

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

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Important Information