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Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

More deliberation over the timing of interest rate cuts

Key takeaways

As recent data in the US on both job gains and inflation come in higher than expected, US central bank chair Powell takes a 'wait and see' stance on the likely path for interest rates.

Recent data releases underline stubborn inflation in the US

Following on the heels of the news that US inflation had picked up marginally in February, the Institute for Supply Management's (ISM's) index of manufacturing sector activity came in well above expectations, indicating marginal expansion in March for the first time since September 2022. More concerning from an inflation perspective, the ISM prices paid index also came in higher than expected, seemingly confirming recent indications of a rebound in input prices.

On Friday the US jobs report, typically among the most closely watched indicators of growth, showed the headline payrolls number firmly surpassing expectations with employers adding 303,000 jobs in March, and the most in nearly a year. Encouragingly, these gains came with only a modest increase in average hourly wages, from 0.2% in February to 0.3% in March, indicating slightly less pressure on wages than seen in previous months.

Geopolitical tensions stoke investor fears of the likely consequences for inflation

This recent run of solid economic data, together with fears that ongoing geopolitical tensions and rising energy prices will fuel inflation, has raised concerns around the pace of interest rate easing this year. Markets appear to have concluded that the US central bank – the Fed – is under little urgency to reduce interest rates in the near term, underlined by chair Powell's recent statement that the Fed needs clearer signs of lower inflation first and that recent data didn't "materially change" things.

But in the Eurozone, inflation is falling

Headline annual inflation in the Eurozone decelerated more than expected to 2.4% in March from 2.6% in February. Core inflation, which excludes volatile food and energy prices, also slowed to 2.9% from 3.1%. In the minutes of the European Central Bank's last meeting in March it was noted that "the case for considering rate cuts was strengthening", but that it would be prudent to wait for key economic data that are scheduled for release after the central bank's April meeting.

Market moves

Heightened geopolitical tensions and uncertainty about the future path of interest rates weighed on global stock markets.

Bonds also struggled as yields rose (bond prices, which move in the opposite direction to yields, fell).

Commodities continued to strengthen with oil, gold and industrial metals all on the rise.

What to look out for this week

US inflation will be in the spotlight this week when US consumer prices data for March is released on Wednesday. A third month of stronger inflation would make it hard to dismiss as a temporary 'blip'.

In Europe, there is the European Central Bank's policy decision on Thursday, where it is widely expected interest rates will be left unchanged.

This week also marks the start of the first quarter earnings reporting season, with several US financial companies reporting on Friday.

Market performance (as at 5 April 2024)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,267.9	-0.4%	-0.4%	3.6%
MSCI United Kingdom Mid Cap	1,311.1	-2.6%	-2.6%	-0.5%
MSCI United Kingdom Small Cap	386.4	-1.0%	-1.0%	1.2%
MSCI World (GBP)	2,672.7	-0.9%	-0.9%	9.1%
S&P 500 (GBP)	5,204.3	-0.8%	-0.8%	10.7%
MSCI Japan (GBP)	1,667.2	-2.5%	-2.5%	9.4%
MSCI Europe ex-UK (GBP)	1,812.9	-1.0%	-1.0%	6.0%
MSCI Pacific ex-Japan (GBP)	1,613.4	-0.2%	-0.2%	-1.0%
MSCI Emerging Markets (GBP)	64,193.6	0.4%	0.4%	3.8%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,015.2	-1.3%	-1.3%	-3.1%
BoA Merrill Lynch Index-Linked Gilts	413.9	-2.0%	-2.0%	-4.2%
BoA Merrill Lynch £ Corporate	410.5	-0.8%	-0.8%	-0.6%
Commodities				
Oil (West Texas Intermediate, GBP)	\$86.9	3.6%	3.6%	22.1%
Gold (GBP)	\$2298.6	4.0%	4.0%	11.8%
S&P / GSCI (GBP)	3,821.7	3.6%	3.6%	15.4%

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Registered Head Office: No.1 Kingsway, London WC2B 6AN. Registered in England No: 4132340 wealthandasset.handelsbanken.co.uk