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**Handelsbanken**

Wealth & Asset Management

WEEKLY BULLETIN

## Recession is looming... will the Bank of England act?

### Key takeaways

Another big week for economic updates painted a mixed picture of the all-important US economy, and a scene of struggle for the UK.

- US retail sales figures released last week suggested that the hugely influential US consumer is clinging on, but we expect to see this falter as excess savings built up during the lockdown era continue to fade away. A range of economic activity data updates also pointed to a deteriorating backdrop for the US economy.
- Across the Atlantic, UK inflation was higher than analysts had expected in December, having fallen by more than expected in November. Stubborn pricing pressures in the services sector formed the primary culprit, with the prices of airfares, alcohol and tobacco among the main drivers (likely reflecting some seasonal factors over the festive period). We still anticipate a downwards trajectory for inflation overall, but as we have noted before, this will not always be a smooth journey.
- Meanwhile, the latest UK retail sales data corroborates recent economic growth news, indicating that the UK economy is struggling. The volume of goods sold in December fell by 3.2% – the worst reading since January 2021, when the nation was in lockdown. Indeed, UK retail sales fell in 2023 overall, for the second year running.
- Importantly, these data readings are already emerging in the UK when the full impact of the interest rate cuts enacted over the past two years has yet to be fully felt in the real economy. We believe (and financial markets appear to strongly agree) that the Bank of England will need to cut interest rates in 2024 – perhaps needing to act sooner than the US central bank.

### Market moves

In another mixed week for stock markets, the US was the outperformer while UK share prices fell sharply.

Bond markets continued to give back some (but not all) of their hard-won late 2023 gains.

Commodity prices (including gold) are still struggling amid a spate of geopolitical events.

### What to look out for this week

Ruling committees at central banks in Japan and Europe will meet this week to decide on the next steps for Japanese and European interest rates.

More inflation data – the personal consumption expenditures price index (or PCE) – is due for release in the US, as well as consumer confidence data in the UK.

## Market performance (as at 19 January 2024)

	Index Levels	Last Week	Month to Date	Year to Date
<b>Equity</b>				
MSCI United Kingdom	2,137.9	-2.3%	-3.4%	-3.4%
MSCI United Kingdom Mid Cap	1,276.1	-1.9%	-3.8%	-3.8%
MSCI United Kingdom Small Cap	364.4	-2.1%	-5.0%	-5.0%
MSCI World (GBP)	2,485.4	0.9%	0.8%	0.8%
S&P 500 (GBP)	4,839.8	1.8%	2.1%	2.1%
MSCI Japan (GBP)	1,544.4	-0.9%	2.2%	2.2%
MSCI Europe ex-UK (GBP)	1,663.7	-1.4%	-2.6%	-2.6%
MSCI Pacific ex-Japan (GBP)	1,557.9	-2.3%	-5.7%	-5.7%
MSCI Emerging Markets (GBP)	59,166.8	-1.9%	-4.6%	-4.6%
<b>Bonds</b>				
BoA Merrill Lynch Conventional Gilts	1,012.5	-1.0%	-3.4%	-3.4%
BoA Merrill Lynch Index-Linked Gilts	403.3	-1.9%	-6.7%	-6.7%
BoA Merrill Lynch £ Corporate	403.6	-0.8%	-2.3%	-2.3%
<b>Commodities</b>				
Oil (West Texas Intermediate, GBP)	\$73.4	1.3%	2.7%	2.7%
Gold (GBP)	\$2028.6	-0.7%	-1.9%	-1.9%
S&P / GSCI (GBP)	3,387.8	0.8%	1.8%	1.8%

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