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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Markets rethink their interest rate predictions

Key takeaways

The all-important US economy held the spotlight last week, as investors attempted to digest the latest employment market news and what this could mean for inflation and interest rates.

- A swathe of US jobs market data was released last week, cumulating in very strong employment numbers. On the surface, the US employment market continues to look resilient, despite sharp and significant interest rate hikes (designed to slow down economic activity) over the past two years. Below, the surface, the picture is a little more mixed in places: as we noted in last week's Weekly Bulletin, data also suggests that US businesses are hoarding their staff. Having found it difficult to hire quality employees during the pandemic era, it appears that businesses are now unwilling to let their workforce go, irrespective of the US economic outlook.
- High levels of employment typically lead to inflation in wages, and last week's figures duly indicated growth in US workers' average hourly earnings. In turn, the spectre of higher inflation generally leads financial markets to reappraise the likelihood of central banks choosing to cut interest rates in the near future. Bond prices fell on Friday, with investors signalling that they no longer expect interest rate cuts in March – they now expect the first rate cuts to come in May.
- Comments from the head of the US central bank – Chair Powell – last week appeared to agree with the market view: March is probably too soon to cut rates. So far, Powell and his fellow US central bank policymakers have indicated that they expect around three interest rate cuts to take place in 2024. Prices in financial markets currently suggest that investors expect around four interest rate cuts, but the market mood is very changeable. Our house view remains that the journey to lower inflation will have bumps along the way, but we do expect both inflation and US interest rates to fall in 2024.
- Sticking with the US (as the world's most powerful economy), last week also played host to the Institute for Supply Management manufacturing report covering January. The report pointed to surprising strength, especially when it comes to new manufacturing orders. The ISM's service sector report is due for release today (Monday).

Market moves

January transitioned into February with a good week of performance for both bond and stock markets, despite some weakness in bonds on Friday.

UK government bonds have struggled to make headway in 2024 following a strong end to 2023, but performed well over the week – most notably inflation-linked UK government bonds.

Share prices in North America and Japan performed well, particularly when translated into sterling (which was slightly weaker) for UK investors.

What to look out for this week

The latest inflation data from China is due for release on Thursday. Chinese inflation measured by the Consumer Price Index (CPI) fell in December, and is expected to fall further in January.

A spate of European economic data is expected towards the end of the week, including German industrial production figures, French trade balance data, and the results of a consumer expectations survey for the region.

Market performance (as at 2 February 2024)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,184.1	-0.1%	-0.1%	-1.3%
MSCI United Kingdom Mid Cap	1,292.0	-1.1%	-0.6%	-2.6%
MSCI United Kingdom Small Cap	371.9	-1.1%	-1.0%	-2.9%
MSCI World (GBP)	2,544.2	1.5%	1.9%	3.3%
S&P 500 (GBP)	4,958.6	1.9%	3.0%	4.8%
MSCI Japan (GBP)	1,559.2	2.1%	-1.4%	3.3%
MSCI Europe ex-UK (GBP)	1,713.8	0.0%	-0.3%	0.0%
MSCI Pacific ex-Japan (GBP)	1,603.9	0.5%	-0.1%	-3.4%
MSCI Emerging Markets (GBP)	60,068.3	0.8%	1.9%	-2.7%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,013.7	0.5%	-0.9%	-3.3%
BoA Merrill Lynch Index-Linked Gilts	405.7	1.3%	-1.2%	-6.1%
BoA Merrill Lynch £ Corporate	406.5	0.6%	-0.5%	-1.6%
Commodities				
Oil (West Texas Intermediate, GBP)	$72.3	-7.4%	-4.1%	1.2%
Gold (GBP)	$2034.2	1.3%	-0.3%	-1.4%
S&P / GSCI (GBP)	3,402.2	-3.2%	-2.1%	2.4%

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.

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