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**Handelsbanken**

Wealth & Asset Management

## WEEKLY BULLETIN

# Investors anticipate a smoother path to US rate cuts

## Key takeaways

The case for a US economic ‘soft landing’ strengthened on the week’s data releases, supporting stock markets at the expense of the dollar.

### What happens when data exceeds expectations

By the end of week, major stock markets had rallied from their losses during the sell-offs earlier in the month, helped by favourable US economic data. Catalysts included a continuing easing in inflation, as well as the stronger-than-expected July retail sales and positive consumer sentiment. Earnings updates by retailer Walmart and technology company Cisco added to the upbeat mood. The net effect was to promote investor expectations of a ‘soft landing’ for the economy – moderate growth and a slowing rate of inflation, compared with the recessionary fears prevalent earlier in the month. The market has reverted to expectations that the US central bank – the Federal Reserve (Fed) – will cut interest rates from their current range of 5.25-5.50% to 5-5.25%. This is less extreme than cutting to a range of 4.75-5%, which had been feared necessary last week in response to the weak US job numbers.

### Further UK economic momentum

The UK economy continued its recovery from a mild recession last year with second quarter economic growth of 0.6% compared to the previous quarter’s 0.7%. During the latest period, growth was led by the services sector, while there was a slight contraction in the production and construction sectors. The effects of higher wage settlements, lower mortgage rates and easing food inflation all contributed positively to the growth, which was in line with analysts’ expectations. The Bank of England expects economic growth momentum to fade during the second half of the year, but despite this, the strength of the economy so far this year saw the Bank upgrade 2024 economic growth from 0.5% to 1.25%.

### Euro a beneficiary of anticipated US rate cut

Benign economic data supporting the case for a September rate cut by the Fed additionally resulted in the strongest euro/dollar exchange rate so far this year. The euro also recently strengthened against the British pound. Possible reasons for this outperformance include the eurozone’s position as a haven of investor stability and it also benefited from the market turmoil earlier this month. However, recent unhelpful regional inflation data may complicate the European Central Bank’s (ECB) stated desire to cut interest rates twice this year. This may result in the ECB delaying its rate cutting activity and keeping its interest rates ‘higher for longer’.

## Market moves

The sharp improvement in investor sentiment propelled the US S&P 500 index to its best week of the year, while European and Japanese shares also rose over the period.

The Japanese yen reversed some of its recent gains against the dollar as investors revived their technique of borrowing in this currency as a lower cost financing option.

The gold price rose to its all-time high of \$2,500 an ounce as the dollar weakened to a five month low against other major currencies.

## What to look out for this week

Many of the world’s central bankers have their annual gathering at Jackson Hole, Wyoming in the US. On Friday, Jerome Powell (the Fed chair) is expected to prepare markets for a US interest rate cut in September.

On Wednesday, the US Federal Open Market Committee (FOMC) minutes should reveal the strength of feeling among committee members for an interest rate cut by the Fed.

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

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