19 February 2024

Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Tricky decisions ahead for the Bank of England

Key takeaways

A mixed bag of economic data painted a jumbled picture of the UK economy, while inflation news held the spotlight in the US…

- News has emerged that the UK officially entered a period of recession at the end of 2023. As a reminder, 'recession' in the UK is defined as two consecutive quarters of negative economic growth. In this case, the UK economy shrank by 0.1% in the third quarter of the year (July-September) and by 0.3% in the final quarter of the year (October-December). It's worth noting that this level of economic contraction is relatively mild, but plays into our long-held expectations for the economic outlook.

- It was a big week for assorted UK economic data. The latest UK inflation figures (measured by the Consumer Price Index, or CPI) showed that pricing pressures remained unchanged at 4% in the 12 months to January 2024 – the same rate as in December 2023. This was lower than many analysts had expected. The latest UK jobs report also pointed to very low unemployment levels (3.8% in December), and ongoing high wage growth. In addition, UK retail sales in January marked their strongest rebound since lockdown.

- More money in UK consumers' pockets may be good news for individuals, but will be a point of concern for the Bank of England, which remains on high alert for signs of stubborn inflationary pressures (like wage growth). Investors have slightly dialled down their expectations for interest rate cuts from the Bank of England in 2024. Signals from bond markets tell us that investors previously expected three rate cuts this year, but that this has been moderated to two or three, with at least one rate cut predicted by August. It's widely understood that the world's leading central banks will only begin to cut interest rates once they believe inflation has been brought under control.

- Inflation held the spotlight in the US last week too, with CPI in the twelve months to the end of January higher than expected (3.1%). High shelter (housing/rental) costs accounted for much of this rise, though other measurements of rental prices suggest that this particular factor may already be falling. Nevertheless, following an emerging theme for 2024, markets have moderated their expectations for interest rate cuts in 2024 in the US too.

Market moves

Last week (to 16 February), the US market took a step back amid higher-than-expected inflation data. Share prices in Japan and developing economies led the pack.

Meanwhile, bond markets weakened slightly, including UK government bonds, as investors responded to a mixed set of data. (Bond yields, which always move in the opposite direction to bond prices, rose slightly.)

What to look out for this week

Investors will be watching closely on Wednesday, when US tech giant and stock market leader Nvidia will release its latest corporate earnings report and guidance for the period ahead.

The next round of private sector survey data (the Purchasing Managers' Index) will be released on Thursday, providing potential insight into the economic health of a range of major developed economies.

Market performance (as at 16 February 2024)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,212.1	2.1%	1.3%	0.1%
MSCI United Kingdom Mid Cap	1,310.5	2.0%	0.8%	-1.2%
MSCI United Kingdom Small Cap	374.7	1.4%	-0.3%	-2.2%
MSCI World (GBP)	2,578.1	0.6%	3.8%	5.2%
S&P 500 (GBP)	5,005.6	0.0%	4.6%	6.5%
MSCI Japan (GBP)	1,622.3	2.7%	1.8%	6.7%
MSCI Europe ex-UK (GBP)	1,746.2	1.5%	1.7%	2.1%
MSCI Pacific ex-Japan (GBP)	1,615.1	1.4%	1.3%	-2.1%
MSCI Emerging Markets (GBP)	61,951.0	2.5%	5.4%	0.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,002.8	-0.1%	-2.0%	-4.3%
BoA Merrill Lynch Index-Linked Gilts	400.6	-0.4%	-2.4%	-7.3%
BoA Merrill Lynch £ Corporate	404.9	0.1%	-0.9%	-2.0%
Commodities				
Oil (West Texas Intermediate, GBP)	$79.2	2.9%	5.1%	11.6%
Gold (GBP)	$1997.9	-0.9%	-1.5%	-2.6%
S&P / GSCI (GBP)	3,526.3	0.5%	2.1%	6.7%

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.

Important Information