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WEEKLY BULLETIN

Markets celebrate a pause in interest rate hikes

Key takeaways

Not one but three major central banks have now held interest rates steady, boosting the mood in financial markets.

- Central banks in the US and UK opted to keep interest rates at their current levels at their top policymaker meetings last week. The US Federal Reserve kept its benchmark interest rate in a range of 5.25-5.5% (a multi-decade high) after recent data showed that the US economy had grown by more than expected over the third quarter of 2023. Meanwhile, the Bank of England – which held rates at 5.25% – has warned that interest rates in the UK will remain higher for longer, impacting economic growth over the coming years. Across the English Channel, the European Central Bank had previously held its deposit rate at a record high of 4% – its first pause on the heels of ten consecutive rate hikes.

- We know that increases to interest rates tend to hit the real economy with a delayed impact, with a lag of around 18 months. This means that interest rate hikes introduced in the first half of 2022 are only now making their presence fully known in the real world, and there is likely much more impact to come from subsequent rate hikes. So far, the world's most crucial economy – the US – has proven to be surprisingly robust in the face of sharp rate hikes. However, we are seeing signs of cracking, such as a slowdown (announced on Friday) in the rate of new jobs added to the US economy in October.

- Central banks have now made clear that they will prioritise fighting inflation (via high interest rates) over economic growth. Nevertheless, last week's pause in interest rate rises was welcomed by investors. Bond yields fell (which means that bond prices rose) and stock markets also enjoyed a buoyant start to the new month. Areas of financial markets which are typically especially sensitive to interest rate changes – such as commercial property in the UK – also saw asset price rises following the news.

Market moves

Bond yields fell last week, meaning that bond prices (which always move in the opposite direction to bond yields) rose. This came in response to the news that interest rates would be held steady in the US, UK and Europe.

Stock markets welcomed these lower bond yields, and all major regional stock markets performed positively over the course of the week.

What to look out for this week

The leaders of US, UK and European central banks will all make public appearances this week. Markets will be listening closely for any confirmation of their suspicions that interest rates have peaked in these countries.

Diverse economic updates from around the world are due for release this week, from Chinese inflation news to German industrial production data. Analysts will be watching for any further signs of economic strain.

Market performance (as at 3 November 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,125.4	1.7%	1.2%	2.7%
MSCI United Kingdom Mid Cap	1,186.1	4.6%	2.9%	8.4%
MSCI United Kingdom Small Cap	348.1	6.5%	5.0%	-0.8%
MSCI World (GBP)	2,268.2	3.6%	2.2%	9.7%
S&P 500 (GBP)	4,358.3	3.9%	1.9%	11.8%
MSCI Japan (GBP)	1,419.0	1.5%	2.8%	8.6%
MSCI Europe ex-UK (GBP)	1,568.1	3.2%	2.1%	6.6%
MSCI Pacific ex-Japan (GBP)	1,520.8	2.4%	3.1%	-6.6%
MSCI Emerging Markets (GBP)	57,944.6	1.2%	1.6%	-1.1%
Bonds				
BoA Merrill Lynch Conventional Gilts	978.3	2.1%	1.8%	-3.2%
BoA Merrill Lynch Index-Linked Gilts	401.6	3.9%	3.3%	-6.3%
BoA Merrill Lynch £ Corporate	386.2	1.8%	1.5%	2.5%
Commodities				
Oil (West Texas Intermediate, GBP)	$80.6	-8.1%	-2.4%	-2.3%
Gold (GBP)	$1994.5	-1.3%	-2.0%	6.9%
S&P / GSCI (GBP)	3,599.4	-4.0%	-1.7%	0.1%

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