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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Investor focus shifts to concerns over Fed independence

Key takeaways

Financial markets returned mixed performance last week as there was no significant news on US tariffs, however, worries increased that President Trump may start to threaten the independence of the US central bank, the Federal Reserve (Fed).

Faith in the US as a safe haven weakens

While most markets had a better week in the lead up to the Easter holiday weekend, US stock markets were spooked by ongoing criticism of Fed chair Powell by the president. Powell continues to focus on inflation and in a mid-week speech stated that tariff increases have been "significantly larger than anticipated" and that "the same is likely to be true of the economic effects, which will include higher inflation and slower growth". This was supported by recent sentiment surveys which showed that both consumers and businesses were pessimistic about the outlook for US inflation and growth.

However, in social media posts President Trump suggested that the Fed chair is being too slow to cut interest rates saying it was time for "pre-emptive cuts", claiming that "there is virtually no inflation" and that there is a risk economic growth slows if rates are not lowered. Alongside were reports that the Trump administration was looking into whether the Fed chair could be removed before his current term ends in May 2026. Powell has reiterated that the Fed's independence "is a matter of law". Such rhetoric causes anxiety in markets and further threatens faith in the US as a safe haven, evidenced by the ongoing weakness in the US dollar.

Central banks focus on getting inflation back under control

With investor focus on the tariff war, the success of central banks in getting inflation back under control has gone somewhat under the radar. This was further evident last week with lower-than-expected readings for underlying inflation reported in the UK, Canada, and New Zealand. UK inflation for March came in weaker than expected at 2.6% year-on-year, which combined with the lack of retaliatory tariffs, the weaker growth outlook, and signs of a softer jobs market, add to confidence that the Bank of England will cut interest rates another three or four times this year starting in May.

Meanwhile in Europe, the European Central Bank (ECB) last week cut its key deposit rate by 0.25% to 2.25% as was widely expected. The ECB reiterated that it would follow a data-dependent, meeting-by-meeting approach and that it was not committing to a particular rate path. While the ECB viewed the disinflation process as well on track, it warned that the outlook for growth has deteriorated due to trade policy uncertainty.

Market moves

Stock markets were mixed last week, with most rebounding strongly, however, US shares fell after the Fed indicated there would be no rush to cut rates to support US markets. Bonds generated positive returns, recouping some of the losses from the previous week.

Gold continued to advance, testing the $3,500 per oz level, while oil fell further on worries over the trade war and its effect on global demand. However, lower energy costs do provide a stimulus to all economies.

What to look out for this week

The key data release this week will be the initial purchasing manager indices for the US and Europe for April. These indices provide an indication of the supply and demand trends in manufacturing and services and will be the first data release to watch for evidence of supply disruptions and price pressures from the tariffs.

The peak of this quarter's earnings season is reached with the two technology giants – Tesla and Alphabet – reporting this week.

Global policy makers will gather in Washington for the IMF/World Bank meetings.

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

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