

18 December 2023



Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

Sleigh bells ring, the Fed is listening

Key takeaways

Last week, the head of the US central bank (the Federal Reserve, or Fed) gave investors an early Christmas present by indicating that interest rate cuts are on the agenda for 2024.

- With expectations growing for interest rate cuts in 2024, the world's leading central bankers were expected to temper the market's hopes last week. Comments from the European Central Bank and the Bank of England certainly sang from this hymn sheet, referencing the need for more data and more progress on bringing down inflation. However, Chair Powell of the US Federal Reserve (Fed) danced to his own tune, appearing to announce the major policy shift – the 'policy pivot' – for which markets have been waiting.
- It's well known that the Fed has been closely monitoring inflation data, and November's figures were released last week (the Consumer Price Index, or CPI). This data came in largely in-line with expectations, at 3.1%, versus 3% in October. The Fed clearly saw this as a sign that – whilst not yet falling back – the rate of consumer price increases has slowed meaningfully.
- Just a few short weeks ago, Powell indicated that markets were getting ahead of themselves, and that it was still too early to be talking about interest rate cuts. However, with US inflation now apparently easing off, the Fed feels ready to begin cutting interest rates once more. Thanks to Powell's comments, markets have drastically reappraised the pathway for interest rates in 2024, expecting an increased level of rate cuts not only in the US but also the UK and Europe. We know that the true effects of interest rate hikes hit the real economy with a lag, so beginning to loosen up interest rates again in the near future could avoid the latest rate hikes hurting the economy too seriously further down the line.
- Meanwhile, other economic data released last week pointed to a slowdown in industrial/manufacturing production in the UK and mainland Europe. Analysts had expected broadly flat results (neither expanding nor contracting), but the reality was a surprise contraction. The latest private sector survey data (the Purchasing Managers Index, or PMI) also pointed to contractionary territory globally, though the service sector in both the US and UK shows signs of strength. Retail sales data in the US was also positive. Taken together, this assortment of global economic data suggests that although economies are slowing, they also contain pockets of resilience.

This will be the final Weekly Bulletin of 2023. We wish you a safe and happy festive period, and look forward to seeing you again in January 2024.

Market moves

Most major asset types enjoyed a positive week, as financial markets reacted to news that interest rate cuts could be on the horizon.

UK government bonds (especially inflation-linked government bonds) were particularly strong, as were the share prices of smaller companies.

Strength in the UK currency reduced some of the impact of positive overseas returns for UK investors, as returns were translated from a weaker currency into a stronger one.

What to look out for this week

More consumer-focused data is due for release this week, including consumer confidence figures for the US and Europe and retail sales data in the UK.

The latest inflation figures for the UK and Japan are also set for release.

Market performance (as at 15 December 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,169.1	0.3%	1.6%	5.4%
MSCI United Kingdom Mid Cap	1,309.9	1.6%	5.6%	20.0%
MSCI United Kingdom Small Cap	374.8	2.6%	5.8%	7.2%
MSCI World (GBP)	2,437.1	1.4%	3.1%	16.2%
S&P 500 (GBP)	4,719.2	1.3%	3.1%	18.3%
MSCI Japan (GBP)	1,427.5	1.2%	2.0%	12.2%
MSCI Europe ex-UK (GBP)	1,686.3	1.2%	3.3%	14.5%
MSCI Pacific ex-Japan (GBP)	1,580.2	3.6%	4.9%	-2.6%
MSCI Emerging Markets (GBP)	60,503.5	1.4%	1.1%	2.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,035.8	3.0%	4.5%	2.4%
BoA Merrill Lynch Index-Linked Gilts	428.6	4.0%	6.2%	0.0%
BoA Merrill Lynch £ Corporate	407.7	2.4%	3.5%	8.2%
Commodities				
Oil (West Texas Intermediate, GBP)	\$71.4	-0.5%	-5.9%	-15.6%
Gold (GBP)	\$2032.3	0.0%	-0.5%	6.1%
S&P / GSCI (GBP)	3,351.7	-0.1%	-3.5%	-9.2%

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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