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Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

Is the wait over? The Fed signals a September rate cut

Key takeaways

The US central bank's priority is shifting - from fighting inflation to support for the labour market.

The Fed is set to deliver a September rate cut

Following a much-anticipated speech by Jerome Powell, the chair of the Federal Reserve (Fed), the US central bank, US stock markets ended the week strongly and near record levels. Powell stated that "the time has come for policy to adjust", signalling that interest rates will likely be cut next month. His speech marks a shift by the Fed from prioritising the fight against inflation to its other key mandate, supporting the labour market. This is timely, as the Labor Department's annual revision of US employment indicated that 818,000 fewer jobs had been created in the 12-months to March 2024 than was originally reported.

Growing trade tensions between China and the European Union

Tit-for-tat moves saw China announce an investigation into imported products from the EU, only a day after the EU released a tariff plan for Chinese-made electric vehicles (EV). The broader picture confirms an increasingly protectionist stance in both Europe and the US. In the US, tariffs on Chinese EVs were quadrupled to 100% earlier this year. Reflecting how this dispute could escalate, European car manufacturers selling cars in China fear they will be at risk of retaliatory moves by China, including on vehicles they build in China and sell back to Europe.

A further boost for the pound

During the week, the British pound rose to its highest level against the dollar in more than a year, while it also strengthened against the euro. The expectation that the Fed will soon cut interest rates from a 23-year high has recently weighed on the dollar against other major currencies. A further catalyst for the pound was the surprisingly strong headline UK Purchasing Managers' Index (PMI) data for August. In the results of this private sector survey, a figure above 50 reflects growth: the UK delivered 53.4, which contrasted favourably with that of the eurozone (51.2) and in particular Germany (42.1). The UK was only marginally behind the US (54.1). This is the consequence of more upbeat recent assessments for the UK economic outlook.

Market moves

Bond yields declined (and bond prices rose) for the interest rate sensitive 2-year US government bond, as investors anticipated a likely 0.25% cut in US interest rates.

The dollar index, representing its value against a basket of major currencies, fell to its lowest level this year. In contrast, the price of gold is at an all-time high.

The gold price continues to strengthen. For the first time, a standard gold bar now costs \$1 million.

What to look out for this week

AI company Nvidia will report its results for the second quarter of 2024 on Wednesday. It has risen by over 100% in dollar terms so far this year. This earnings season, investors have been unforgiving of technology companies not appearing to justify their high valuations.

The latest inflation data used by the Fed, the Personal Consumption Expenditures (PCE) price index for July, will be released on Friday.

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

marketing.hwam@handelsbanken.co.uk

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