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WEEKLY BULLETIN

Markets rebound as investors focus on the US rate cut

Key takeaways

Rising expectations that US interest rates will be cut by more than 0.25% fuelled a strong rally for US share prices.

Greed versus fear in the US

A week after producing its weakest weekly return in percentage terms so far this year, the S&P 500 (which represents the share prices of the largest US-listed companies), recovered for its best weekly performance of 2024. This was in spite of some unhelpful mid-week inflation data, excluding energy and food constituents, that rose more than expected. Markets soon looked through this blip, so much so that by the end of the week, expectations of a 0.5% rate cut from the US central bank increased dramatically.

Interest rate cuts in Europe

As expected, the European Central Bank (ECB) cut interest rates by 0.25% to 3.50%, its second cut of the year. Further rate cuts will depend on the incoming economic data. The ECB cut its growth forecasts for 2024, 2025 and 2026, while the inflation outlook was broadly unchanged. The growth downgrade is consistent with our view that the green shoots of economic growth which were appearing in Europe look like they are abating at the moment. This creates risks for global growth and adds more fuel to the fire for central banks to cut interest rates.

Harris takes the lead in the US

A televised debate between the US presidential candidates led to the general consensus that Kamala Harris had come out on top. Trump appeared to miss out on numerous opportunities to go on the attack on Harris' record in the White House. Betting odds reflected this, as did the share price fall of Trump Enterprises and the spike in the share price of clean energy company First Solar, as a Democratic win in November would be viewed as positive for this sector. But while Harris is on the ascendancy, the poll gaps are narrow: even a week is a long time in politics, and there are five weeks to go until the election.

A reckoning for the UK?

Based on its analysis of UK government policy, the independent Office of Budget Responsibility (OBR) has reported that unless the government takes action, the UK's public debt could triple in the next 50 years. It forecasts this could rise to 270% of UK economic output (GDP) by 2070, compared to just under 100% currently and added that it considered this an 'unsustainable path'. With businesses and individuals already being softened up ahead of a 'hard choices' budget in October, this assessment is downbeat, even as the OBR admits the uncertainties associated with such long-term forecasts.

Market moves

Gold hit another record high of $2,570.03/oz. as investors increased bets that the US Federal Reserve (Fed) would reduce interest rates by more than the expected 0.25%.

Technology stocks rallied as Nvidia's CEO reported that "chip demand was incredible".

What to look out for this week

In a big week for central bank updates, policymaker meetings are due at the US Fed, the Bank of England, and the Bank of Japan. All are set to announce their latest interest rate decisions.

The latest inflation data (measured by the Consumer Price Index, or CPI) is also due for release in the UK and Europe.

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

marketing.hwam@handelsbanken.co.uk

Important Information

Registered Head Office: No.1 Kingsway, London WC2B 6AN. Registered in England No: 4132340 wealthandasset.handelsbanken.co.uk