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WEEKLY BULLETIN

Markets draw breath as a record year winds down

Key takeaways

Buoyant investor sentiment paused for breath last week, though the dominant US market looks set to book another year of record returns. Some market watchers worry about the possibility of 'stagflation': low growth and stubborn inflation.

A new golden age?

The US economy is currently characterised by a combination of low unemployment and healthy economic growth. For nearly two years, it has been growing at an annual rate above 2.5%. At the same time, the level of US unemployment hasn't gone above 4.3%, the longest stretch since 1965-1970. Periods of low unemployment have usually been good for asset returns and some investors believe that this suggests a favourable 2025 outlook. Their view is that companies could benefit from the continuing boom in spending on artificial intelligence, as well as the effects of tax cuts under the incoming Trump administration, but before the negative effects of any new proposed tariffs.

US exceptionalism comes at a price

US consumers have never felt so optimistic about potential 12-month gains in the stock market. And why not? The S&P 500 is on track to outperform global shares for the 14th year out of the last 15. Yet 'retail' (non-professional) investors are often seen as late-comers to financial markets, reflecting the combination of a 'herd mentality' combined with some capitulation as lingering doubters finally cave in. With this in mind, it could be worth noting that a number of key stock market indicators are close to levels historically associated with bubbles.

Central bank rate cuts

The Swiss, Canadian and European central banks cut rates during the week. The 0.5% reduction by the Swiss National Bank (SNB) was greater than analysts expected. So far this year, the SNB had cut by 0.25% on each of three separate occasions. This latest move by the Swiss central bank was interpreted as a desire to reduce the strength of the Swiss franc, whose strength is making it more difficult for exporters at a time of global trade uncertainty. In contrast, the 0.25% interest rate cut by the European Central Bank (ECB), while expected, was viewed as a response to the region's fragile outlook. This reflects both the political uncertainty in France and Germany, as well as the possibility of a tariff/trade war with the US.

Market moves

A lacklustre week for US share prices and bonds as sentiment was weighed down by fears of 'stagflation': sluggish economic growth and stubborn inflation.

Despite this, US shares are close to ending the year with a record level of dominance among their global peers (accounting for 74% of the global MSCI World Index).

The oil price rose more than 5% in response to events in Syria.

What to look out for this week

On Tuesday, UK employment data for October and German business confidence (the ifo Business Climate Index) will be released.

On Wednesday, the US Federal Reserve central bank is expected to announce a 0.25% cut in interest rates.

On Thursday, the Bank of England is forecast to hold interest rates at their current level.

On Friday, US inflation data and UK retail sales for November will be released, as will preliminary consumer confidence for December.

This will be the final Weekly Bulletin of 2024. We wish you a safe and happy festive period, and look forward to seeing you again in January 2025.

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

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Important Information

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