Article MARKET COMMENTARY

Market round-up: 16 October – 20 October

Tom Watts recaps the week and takes a look ahead to next week.

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This week just ended

When it comes to financial markets, it's all about making the right call. Whether it be forecasting upcoming trends and economic data that will shape the financial landscape, or simply making actual phone calls.

Data released at the beginning of the week showed the global smartphone market contracted by 8% to its lowest third-quarter level in a decade, following subdued demand for major brands including Apple and Samsung in most developed markets. The report fans fear that the market's ongoing slump could have a major effect on Apple's upcoming earnings report, with the world's largest company's shipments shown to have declined by 8% during the quarter.

They say it's good to talk, with Monday also seeing the Bank of England's Chief Economist, Huw Pill, giving his thoughts on future rate policy from those stationed on Threadneedle Street. Speaking at the Economic and Monetary Policy Institute in London, Pill refused to commit to the notion that there are more rate hikes on the horizon, but he did make the call that we shouldn't "declare victory (on inflation) prematurely."

Indeed, his words were backed up by inflation data for the UK released later in the week, as the latest Consumer Price Index (CPI) numbers received a pretty poor reception. Wednesday's news showed that headline inflation remained at 6.7%, against hopes of a slight fall to 6.6%. Core inflation, stripping out the volatile food and energy sectors, did fall slightly from 6.2% to 6.1%, but hope was for a fall to 6%. A rise in petrol prices between August and September was the main factor in propping up headline inflation and more than offsetting food prices which saw their first monthly fall in two years.

On the news, sterling rose whilst UK government bond prices fell, as financial markets judged the chances of another rate rise from the BoE as increasing, although the odds of such a move remained largely subdued.

It was less of close call in the US on Tuesday, as retail sales figures showed that the consumer is still in buoyant mood, despite Federal Reserve's best effort in raising rates, continuing to spend on the high street. Retail sales rose 07% monthly, well above the 0.3% predicted, with consumers choosing to spend more on food and drink the data showed. There were only a few categories that showed a decline such was the strength of the data, with shoppers staying away from expensive electronics and appliances as well as at clothing retailers, both seeing decreases of 0.8% for the month.

With bond yields rising on the news, as worries that the US Federal Reserve may also have to keep rates high prevailed, it was up to Jay Powell to allay fears on Thursday evening. However, much like trying to use UK phones over in the US, the signals weren't good. "Inflation is still too high, and a few months of good data are only the beginning of what it will take to build confidence that inflation is moving down sustainably toward our goal." Powell commented during a press conference in New York.

Despite this, a poll from Reuters news agency showed that of more than 100 economists, more than 80% believe the Fed will stay put during their next meeting, with most also believing the central is finished with rate hikes altogether as inflation is forecast to cool soon… the very definition of a cold call…

This coming week

In what will be a busy week coming up for economists, not only will many have a job to keep on top of all the economic data released, the beginning of the week will also show who is looking for a job more generally.

With a persistently strong labour market here in the UK, Claimant Count data released on Monday, should make for interesting reading, especially for those at the Bank of England. Detailing the change in the number of people claiming unemployment-related benefits during the previous month. Although the data is generally viewed as a lagging indicator, the number of unemployed people is an important signal of overall economic health, with consumer spending being highly correlated with how strong the labour market is.

Not only will we receive a gauge of the health of the domestic economy but later during Monday, we will get a more comprehensive view of how companies are feeling on a global basis. The beginning of the week will also bring with a host of Flash Purchasing Manager Index (PMI) data, detailing the results of a survey asking businesses to rate the relative level of business conditions including employment, production, new orders, prices, supplier deliveries and inventories. Covering both the manufacturing and services sectors for Germany, France, an overall European composite, the UK and US, the readings will give us an invaluable sense of the global economy at a company level.

The middle of the week will see attention switch to the continent as the European Central Bank (ECB) announce whether it will maintain the status quo in terms of interest rates. With the central bank having pretty much confirmed that it is done with its rate hiking cycle now, it will be interesting to hear from Christine Lagarde, the President of the ECB, in how content they are with this decision, as data in Europe begins to soften.

The end of the week will be wrapped up in the US as the Bureau of Economic Analysis releases its Core Personal Consumption Expenditure index numbers. Predicted to make quite the impact after its release on Friday, the data differs from normal inflation readings in that it only measures goods and services targeted towards and consumed by individuals. Adding even more importance to the figures is that this is reportedly the preferred piece of data for the US Federal Reserve, using it as their primary inflation measure.

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Risk warning

The value of your investments can go down as well as up and you may get back less than you paid in. Tax rules can always change in the future. Your own circumstances and where you live in the UK could have an impact on tax treatment.