Article MARKET COMMENTARY

Market round-up: 23 October – 27 October

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

Author

Thomas Watts

Investment Analyst

Duration: 5 Mins Date: 27 Oct 2023

This week just ended

"Tell me why I don't like Mondays?" asked Bob Geldof back in 1979, a fair request considering the beginning of the working week is often judged as one of the more depressing parts of life. A great band in their day, The Boomtown Rat's foresight when it comes to US market movements is often overlooked when assessing the New-Wave rockers back catalogue.

It is hard to believe that during such a difficult period for stocks, there have been fifteen consecutive Mondays of markets closing higher in the US, however, the winning streak finally came to an end this week as the broadest US index, the S&P 500 closed 0.2% down. Closing at its lowest level since May, the US benchmark was not alone in being buffeted by higher bond yields, a symptom of investor worries that base rates may need to stay higher for longer in the face of a persistently resilient economy.

Staying with the New-Wave theme, although it was indeed a Blue Monday for most economies, by Tuesday it was mostly red, as both manufacturing and services PMI data for the UK, Europe and the US showed predominantly contractionary readings. With a reading of below 50 indicating contraction, a lower than anticipated 49.2 for the UK's dominant services sector was a cause for alarm, although the news did bolster the case for the Bank of England to keep rates on hold when they convene next week.

Video Killed the Radio Star by the Buggies, the first song to be aired on MTV back in 1981, and another New-Wave classic also enjoys a link to this week, as YouTube owner Alphabet released its results. Being one of the largest companies in the world by market capitalisation, its results act as an important bellwether for earnings in general and the state of the overall economy. Reporting that its cloud unit's growth fell to near a three-year low, the stock dropped 9.6% on Wednesday, compared with a healthy 2.8% gain for Microsoft, as investors worries that Google's parent could lose share in the cloud-computing market to one of its main rivals.

Pressing pause, not only on the musical nostalgia this week, but also on their rate hiking cycle, possibly for good, was the European Central Bank (ECB). Snapping an unprecedented streak of 10 consecutive rate hikes, along with maintaining its guidance of steady policy ahead, there was very little in the way of surprises. ECB president, Christine Lagarde, gave very little away in her accompanying press conference, commenting, "The economy is likely to remain weak for the remainder of this year. But as inflation falls further, household real incomes recover and the demand for euro area exports picks up, the economy should strengthen over the coming years."

The end of the week was dominated by data from the US, first in the form of strong GDP data, showing that their economy had grown by its quickest in two years, spurred on by a rebound in residential investment after nine straight quarterly declines. While the robust growth pace notched last quarter probably won't be sustainable going forward, it does highlight the economy's resilience despite aggressive interest rate hikes from the Federal Reserve.

The second part of the US double header came in the form of Core Personal Consumption Expenditure index numbers, reportedly the favoured piece of data for the US Federal Reserve when judging inflation. With the US economy staying remarkably robust in the face on almost unrelenting rate rises, it was music to investors ears to hear that the reading had come in at 0.3% monthly, in line with consensus forecasts.

This coming week

After a 49-hour weekend thanks to the clocks going back, investors wanting an early start to the week will be looking forward to the perfect timing of data coming from the continent on Monday.

It's about time too that inflation begins to abate on the continent, with the European Central Bank signalling that they could well be done hiking rates during the previous week. In timely manner, we are treated to both Germany and Spain's Consume Price Index (CPI) figures on Monday, both acting as useful markers to gauge where inflation sits on the continent.

Interestingly, there are actually two versions of this report released about two weeks apart, Flash and Final. The Flash release is the earliest and thus tends to have the most impact, potentially causing heightened volatility in European markets during the beginning of the week.

Although it will be interesting to see what investors makes of Europe's inflation data on Monday, attention will then switch to China, to see what they're making more generally. Tuesday will see the world's second largest economy release its Manufacturing Purchasing Manager Index (PMI) reading for the month, helping us evaluate if China's stuttering reopening from the pandemic is continuing. Dubbed the "workshop of the world" China's manufacturing sector unsurprisingly dominates its overall economy, making Tuesday's data vitally important for investors.

There is so much happening next week that economists will have a job trying to keep up with it all, a suitable analogy considering the labour market heavy theme that should emerge during the second half of the week, especially in the US. Wednesday will see both ADP Non-Farm Employment Change numbers and job openings give us a clearer idea of how a very resilient US labour market is faring. However, the box office data in terms of labour markets comes on Friday afternoon, in the form of Non-Farm Payrolls. Often considered one of the Fed's favoured pieces of information when determining their next rate move, we should expect heightened market volatility come the end of the week during its release. The employment data itself will be accompanied by Average Hourly Earnings, allowing us to gauge future inflation expectations as the more consumers earn, the more they tend to spend.

Whilst investors should be kept on their toes throughout next week, central bankers will be thankful for that extra hour in bed as the week should also turn into something of a tale of two central banks. With both the US Federal Reserve and the Bank of England expected to maintain the status quo in terms of rates, it will be the forward guidance provided that could really set the tone for a good amount of time to come.

Back to top

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.