Article MARKET COMMENTARY

Market round-up: 04 December – 08 December

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

Duration: 5 Mins Date: 08 Dec 2023

This week just ended

With markets grinding increasingly higher over the past month, it is somewhat apt that coffee made the headlines this week, as fast-food behemoth, Macdonald's, announced its intention to make a move into the lucrative market.

CosMc's, which would operate in the same market segment as Starbucks, is aiming to crack the lucrative coffee market, especially in the more unsophisticated US hot beverage sector, where more than 60% of the country drinks at least one cup a day.

When making a tasty beverage, achieving that perfect blend is vital, with a mixture of key ingredients leading to a satisfactory outcome. With this in mind, financial markets have enjoyed something similar of *latte*, rallying on the back of inflation falling markedly, whilst the consumer and labour market remain remarkably robust. With many predicting trouble brewing in the jobs market after record levels of rate hikes from central banks, Tuesday's US job opening data made for interesting reading.

U.S. job openings fell to more than a 2-1/2-year low for October, the strongest sign yet that higher interest rates were dampening demand for workers. The data also showed that there were now 1.34 vacancies for every unemployed American, the lowest since August 2021 and down from 1.47 in September. It appears fewer workers are resigning from their jobs, instead feeling less confident of moving to a higher paid role, which was very much the driving force of higher wage growth earlier in the year.

In what was a distinctly US labour themed week for markets, Thursday saw US unemployment claims numbers released, detailing the amount of individuals who filed for unemployment insurance for the first time during the past week. Complimenting what we had seen earlier in the job openings data, the report from the US Labor Department also showed unemployment rolls declining in late November after the so-called continuing claims hit a two-year high in the middle of the month. The mixed data put investors in a kind of purgatory (or *perk*atory if you will) with views that the Federal Reserve is likely done raising interest rates this cycle, the data suggested that financial market expectations of a cut as early as the first quarter were premature.

The week also allowed Bank of England (BoE) Governor, Andrew Bailey, to *espresso* his views on the domestic economy and where he sees rates heading. During his recent speeches he has used every opportunity to hammer home his message that it is far too early for the BoE to think about cutting interest rates and that the full force of higher borrowing costs has yet to make a full impact on the economy. A line now echoed by most other members of the Monetary Policy Committee. Initially, having made a *mocha*-ry of Bailey's early statements, Chief Economist Huw Pill sent bond prices climbing last month when he said market expectations for a first rate cut in August next year did not seem totally unreasonable, before returning to BoE script in subsequent appearances.

It's never too *latte* in the week for big economic news, with Friday afternoon giving economists a chance to dissect US non-Farm Payroll figures, one of the most important pieces of data available for the US Federal Reserve to use when judging the strength of the labour market and overall economy. Total employment increased by 199,000 in November, above consensus, and the unemployment rate edged down to 3.7%, from 3.9%. Employment was shown to have increased in manufacturing markedly, reflecting the return of workers from a strike. The stronger than expected data saw markets begin to par back their expectations of a rate cut by March, seeing the chances of downward move on rates resemble something you might see in your local CosMc's next year, a tall order…

This coming week

In what should be one of the final full business weeks of the year, investors will be treated to a slew of economic data releases, especially here in the UK, allowing us to judge just how the domestic economy sits as we head into 2024.

The ongoing weakness in the housing market could be news that we see a lot of in the coming year and so Rightmove's Housing Price Index (HPI) could prove to be a valuable insight. Detailing the change in the asking price of homes for sale on their platform, the data should act as a leading indicator of the sector's health. The release comes hot on the heels on the news on Friday that mortgage rates on a typical two-year fixed deal have fallen below 6% for the first time since mid-June, when they peaked at 6.89%.

The domestic data releases carry on through the early part of the week, with unemployment benefit claims being announced on Tuesday before Wednesday sees the Office for National Statistics releases its Gross Domestic Product figures. The data acts as the broadest measure of economic activity and the primary guage of the economy's health, telling us whether or not we are in recession. Whilst economic growth is expected to be around flat this time around, many expect the UK to fall into recession next year, making this coming week's reading even more important.

With of this in mind, the BoE will hold their latest press conference on Thursday, announcing their views on the economy and where they see future rate policy headed. With many expecting a "hawkish pause" from the bank, meaning they are not expected to raise rates any further, but at the same time, push back against expectations that they will look to cut the early next year.

Whilst there is a lot keeping us busy on domestic shores, US investors should be equally as busy, with inflation numbers being released on Tuesday. The inflation numbers come at the perfect time for the US Federal Reserve, who also make an appearance this coming week to talk about rate policy. Much like our own BoE, the Fed are expected to fully confirm they have fully finished their rate hiking cycle but will not confirm they are anywhere near considerations of cutting them just yet.

The end of the week is wrapped up with most major economies releasing their Flash Purchasing Manager Index readings for this month. 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.

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