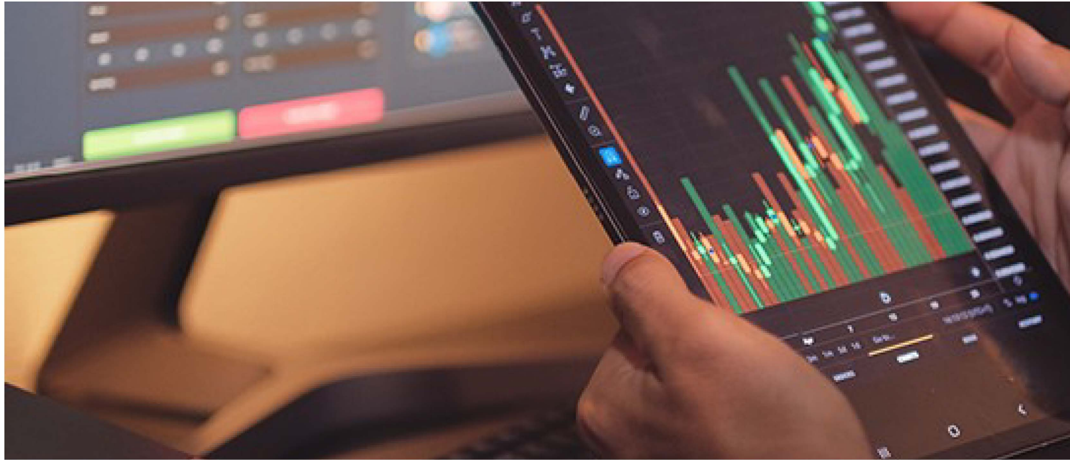

Article MARKET COMMENTARY

Market round-up: 01 January – 05 January

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

Author

Thomas Watts

Investment Analyst

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This week just ended

A new year, a new month and new week in financial markets saw a difficult start for most major asset classes as the rally that had characterised the final month of 2023 began to fizzle out.

Perhaps the change in optimism investors felt around the turn of the year took inspiration from the Romans, who interestingly named the month after their god of beginnings, transition, time and doorways, Janus. Latin for "arched passage or doorway", the god is often depicted with two faces, one looking forwards, the other backwards, seeing out the old year, whilst looking forward to what is to come.

Looking to the future has been a major theme of the past week as investors increasingly price in the chance of a rate cut from the US Federal Reserve sooner rather later. Helping markets get a *handle* on when such a move could come, Wednesday evening saw the Fed release the minutes from its most recent meeting, giving their views on the economy and the reasons for voting to keep rates steady during December.

However, unfortunately for investors, the minutes shed very little light on when rate cuts might commence. Participants noted "an unusually elevated degree of uncertainty" about the economic outlook, with further rate increases still possible. But Fed officials also considered the overall risk of renewed inflation "as having diminished," while "a few" members saw a different problem developing: That the Fed would soon confront a "trade off" between its dual goals of controlling inflation and maintaining high rates of employment.

After what was quite an ambiguous message on interest rates, futures largely stuck to bets that the central bank would start to ease policy in March, with the base rate seen ending the year within the 3.75-4.00% range, down from the current 5-5.25% range, a total cut of 1.5% for 2024.

Whilst Janus may be a god with two faces, it was investors that turned the other cheek this week after a slew of worrying data. Inflation numbers in Europe showed that prices were increasing in six economically important German states in December, suggesting a bumpy road ahead for German inflation. French data also showed that its yearly inflation stood at 4.1% in December, up from 3.9% in

November and pushed up by higher energy and services prices. Higher readings from the Eurozone's two largest economies, bolstered worries that euro zone-wide inflation could well rise back above 3% for December, forcing European bourses lower.

Helping to *frame* what had been a *jamb* packed week nicely was the release of US non-Farm Payroll numbers on Friday, a piece of data highly valued by the Federal Reserve. Latching onto stronger than expected readings, markets accelerated a sell off that had characterised the week as many second guessed the strong rally that preceded it. The figures showed that the US economy added 216,000 new roles this month, far higher that the 168,000 expected. Average hourly wages also rose slightly by 0.4% versus 0.3% expected, but the unemployment level did stay at 3.7% when many had anticipated it would rise. On the news, the USD jumped, with bond yields also on the rise as investors reassessed the likelihood of a Fed rate cut. Much like a door, it seems market sentiment can indeed hinge on a simple push…

This coming week

With the run up to all the Christmas and New Year Festivities seeming like a life time ago, the coming week will serve to remind us that it was all but a few weeks previous.

Tuesday will provide us with the British Retail Consortium's Retail Sales Monitor, allowing us to gauge just how well the High Street performed during the vital December period. With UK retail behemoth NEXT reporting better-than-expected sales for the period already, many will be hoping for equally strong numbers from many of its competitors in what has been a difficult year for retailers.

With many still counting the cost of Christmas, economists will be counting the costs more generally as the US releases its latest

Consumer Price Index (CPI) reading, the broadest gauge of inflation within an economy. With markets now predicting the Federal Reserve may start to cut rates as early as March, December's reading could be crucial in either reaffirming or reassessing just when the Fed feels the need to start to ease monetary policy.

With persistently strong US labour market proving to be a constant thorn in the side of the Fed, it is useful that Wednesday's CPI data is released alongside US unemployment claims figures. A key metric for measuring the strength of the jobs market, the data will show us the number of Americans who filed for unemployment insurance for the first time during the past week. Although the data is generally viewed as a lagging indicator, the number of unemployed people is an important signal of overall economic health due to consumer spending being highly correlated with labour market conditions. Unemployment is also a major consideration for those at the US central bank who have repeatedly remarked that they are data dependant when considering future rate cuts.

The coming week should be wrapped up back on domestic shores as the Office for National Statistics released its Gross Domestic Product (GDP) data. With many economists believing that the UK could already be in recession, Friday's monthly data could be key in determining whether the UK economy is indeed shrinking. GDP represents the change in the total value of all goods and services produced by the economy and is the broadest gauge of its strength and so we can expect heightened volatility in the UK markets towards the end of the week.

The information in this blog or any response to comments should not be regarded as financial advice. If you are unsure of any of the terminology used, you should seek financial advice. Remember that the value of investments can go down as well as up, and could be worth less than what was paid in. The information is based on our understanding as at 05 January 2024.

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