Article MARKET COMMENTARY

Market round-up: 08 January – 12 January

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

Author

Thomas Watts

Investment Analyst

Duration: 4 Mins Date: 12 Jan 2024

This week just ended

It was seventy years ago on Monday this week, that the BBC first broadcast its first televised weather forecast, a much more difficult ordeal for presenters in those days, who were often forced to draw their own charts out of charcoal live on air.

Moving through the years, towards magnetic boards with symbols that would sometimes fall off, towards the green screens of today, which presenters cannot see, weather forecasting is no simple business.

Economic forecasting, like predicting the weather, is also an inexact science. You take the data available to you, compare it to historical trends, grit your teeth, then make your best-informed prediction. With this in mind, the past week in markets has been a little "sunshine and showers" with a mixed bag of economic data leaving many economists under the weather to say the least.

Coming in hotter than expected was the US Consumer Price Index (CPI) this week, a hugely influential piece of data, that showed inflation may still have a nasty sting in the tail for investors, despite having fallen consistently during 2023. Inflation increased more than expected in December, with Americans paying more for shelter and healthcare, suggesting it was probably too early for the Federal Reserve to start cutting interest rates by March, as many had previously anticipated.

The data showed CPI rose 0.3% last month after nudging up 0.1% in November, on an annual basis this equated to a rise of 3.4%, higher than the 3.2% forecast. The cost of shelter, which includes rents, hotel and motel stays as well as school housing, accounted for more than half of the increase in the reading, with the rest largely coming from food and fuel price rises. Investors are now pricing in a 60% chance of the Fed beginning its rate cut cycle in March now, down from nearly being fully priced in during December.

Expectations for a rate cut in March were also tempered by other data on Thursday, which showed that the US labour market remained fairly tight at the start of this year, with the number of Americans filing new claims for unemployment benefits unexpectedly falling last week. The numbers reaffirmed the previous week's strong Non-Farm Payroll numbers that also came in stronger than consensus.

The sun wasn't necessarily shining on the UK by end of the week as Gross Domestic Product (GDP) released by the Office for National Statistics (ONS) came in higher than expected. Taking the nation's temperature, GDP is the broadest gauge of economic health, measuring the change in the total value of all goods and services produced by the economy. Rising 0.3% monthly, higher than the 0.2% forecast. However, on a quarterly reading, output shrank by 0.2% in the three months to the end of November, with expectations of a 0.1% having been *mist*. A contraction or possibly even flat output in December could lead to a second consecutive quarter of falling output, the ONS said, placing the economy in a shallow technical recession.

On a stock level this week, Microsoft investors were certainly blown away, as the Silicon Valley behemoth overtook Apple to become the world's largest company by market capitalisation. Microsoft's shares have risen sharply since last year, thanks to the early lead the company has taken in generative artificial intelligence through an investment in ChatGPT-maker OpenAI. Thursday saw Microsoft's shares rise 0.5%, making it the world's most valuable company at $2.859 trillion. It seems that despite the cold weather we've been experiencing this week, more people have been opening their Windows than ever…

This coming week

With 2024 now in full swing, the coming week should allow us to get more of a handle on the state of the UK economy after last week's mixed GDP data.

In fact, the beginning of the week will be firmly focussed on handles, door handles, as Rightmove releases it Housing Price Index (HPI) numbers. The data usually acts as a leading indicator of the housing industry's health because rising house prices attract investors and spur industry activity. When a house is bought or sold, it creates a ripple effect across many different sectors, from solicitors and surveyors to DIY shops all cashing in, making the data both important and far-reaching.

The domestic data doesn't stop there, as Tuesday and Wednesday offer us UK unemployment benefit count numbers and Consumer Price Index (CPI) readings respectively. Consumer prices account for most of the overall inflation and so Wednesday's reading should prove to be essential for those tracking prices rises in the UK. With it seeming likely that we will slip into a mild recession early this year, the Bank of England (BoE) will be monitoring inflation carefully as they plan their next move on interest rates.

The second half of the week should be distinctly American Consumer focussed, with markets turning their attention, firstly to retail sales and then consumer confidence numbers, released on Friday. The retail sales numbers will measure the change in the total value of sales at the retail level and act as strong gauge for overall economic activity.

The numbers will dovetail well with accompanying consumer confidence figures as the more buoyant a consumer feels about the economy and their own personal financial circumstances, the more they tend to spend, making the two pieces of data inextricably linked.

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.

abrdn