Home Market round-up

Article MARKET COMMENTARY

Market round-up: 22 January – 26 January

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

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This week just ended

For those binge watching the markets this week, an upbeat earnings update from Netflix, among strong performances from other US tech behemoths, characterised what was a strong few days for investors.

Pressing the "skip intro" button and going straight to Tuesday's Netflix news, the company reported it added 13.1 million subscribers towards the end of last year, its largest-ever fourth-quarter subscriber growth, far exceeding projected number of 8.97 million. The latest addition of viewers brings the total number of subscribers to Netflix to 260 million worldwide. The news pushed the company's shares up by 8.3%during after-hours trading, with the stock having already gained 65% during 2023.

With this in mind, a long running drama worthy of inclusion in Netflix's roster, has been the will they / wont they, regarding the European Central Bank (ECB) and cutting interest rates on the continent. The latest episode on Thursday saw the bank keep rates unchanged at a record-high 4%, whilst reaffirming its commitment to fighting inflation, giving no hint that policymakers are even contemplating a start to easing just yet. Despite repeatedly rebuffing market hopes of a swift cut, investors still see 1.25% of reductions this year, or five 0.25% moves, with the first in April or June.

Much like Netflix, data released on Thursday also showed that the US economy has been putting on a good show of late. The U.S. economy grew faster than expected during the fourth quarter of last year, shrugging off dire predictions of a recession, with growth for the full year coming in at 2.5%. Driven by consumer spending, the US economy has defied expectations over 2023, with many economists estimating a 0.1% contraction back in December 2022. The data was so strong, markets have pushed the probability of a March rate cut in the US to below 50%, a mere month after they were factoring in a near 90% chance.

There was also positive news for the UK this week with Purchasing Manager Index (PMI), a vital piece of information for gauging the thoughts of companies towards current economic conditions, coming in strongly. With a reading above 50 showing expansion, the latest composite showing, including both the Manufacturing and Services Sectors, rose to a seven-month high of 52.5 in January, up from December's 52.1 and above forecasts of a rise to 52.2. Although the dial was pushed higher by the growing Services sector this month, Britain's long-struggling manufacturers struggled, hit by the inflationary impact of tensions in the Red Sea.

Much like in Europe, central bankers in the UK have been quick to push back on talk of a rate cut just yet, with the stronger data further cementing the notion that the Bank of England (BoE) would be in no hurry to move just yet. Rate futures still showed investors broadly expecting four 0.25% cuts for this year but with less conviction than before the PMI data was released.

Although the PMI reading is encouraging for the domestic economy, the broad consensus is still that we will slip into a mild recession later this year as the BoE’s previous rate rises further stymie consumer spending. However, taking this week’s data into consideration, and like any avid Netflix watcher will tell you, stranger things have happened…

This coming week

With the coming week seeing us transition us from January to February, it is important to remember just what we are getting ourselves into. Perhaps the Anglo-Saxons were on to something when they used to refer to the month as *Solmonath*, literally translating to “mud month”. Hardly surprising when the month provides very little backdrop where productive gardening can be done (apart from pruning your Wisteria and Hydrangeas of course), so it is with so thanks that the coming week starts inside the home.

Nationwide’s Housing Price Index data being released on Monday morning. Detailing the change in the asking price of homes mortgaged by the provider, the data acts as the UK's earliest report on housing inflation. The housing industry's health should not be overlooked when gauging the wider industry activity it can spur. The property market is very important to the broader economy and has a wide-reaching impact on banks, mortgage providers, estate agents and even greatly impacts DIY and furniture companies who should benefit from increased activity in the market.

From housing prices to household confidence, Tuesday brings US Consumer Confidence, released by the American Conference Board. The survey is so well respected due to its breadth, asking 3,000 households to rate the relative level of current and future economic conditions including the ease of getting a new job, business conditions and their overall economic situation. Consumer confidence is incredibly important to economists as it acts as a leading indicator of consumer spending, which accounts for the majority of overall economic activity.

The remainder of the week should be a tale of two central banks as the US Federal Reserve and the Bank of England hold press conferences on Wednesday and Thursday respectively. With a slew of stronger than anticipated economic data for both nations released of late, the general expectation is for both banks to keep base rates at the status quo, however investors will be looking out for any subtle hints dropped into to each banks' press engagements as to when they see a potential cut to be on the horizon.

As ever, the first Friday of the month brings US Non-Farm Payroll data. A key piece of information when determining the US central bank's thinking on inflation, the employment data itself will be accompanied by Average Hourly Earnings, allowing us to more accurately gauge future demand expectations as the more consumers earn, the more they tend to spend. It all combines to be a vital piece of data for the Fed and should take on added significance considering the extra impetus put on such data going forward from the US central bank.

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.