Article MARKET COMMENTARY

Market round-up: 29 January – 02 February

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

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This week just ended

The Pennsylvania Dutch brought a great many customs with them when settling in America during the early 1800s. Bright and colourful furniture and buildings, hanging their Christmas trees upside down (which unfathomably doesn't seem to have caught on) and even more curiously, their various weather folklores, including an attempt to predict the beginning of spring.

First taking place on 2 February 1887, Groundhog Day is marked by the announcement of whether a small furry critter named Phil sees his shadow after emerging from his burrow. An overcast day will usually mean he won't and will fully venture out, however, on a sunny day, the Groundhog could be scared by his own shadow and retreat into hibernation, signalling a further six weeks of winter.

Of course, the other perception of Groundhog Day is that of pure repetition, an idea not lost on UK homeowners during 2023, who saw property prices continually fall as the Bank of England hiked its borrowing costs. However, news from mortgage provider, Nationwide, on Wednesday showed that UK house prices rose 0.7% to January, resulting in an improvement in the annual rate of house price growth from -1.8% in December to -0.2% for the beginning of the year.

The lender commented that there have been some encouraging signs for potential buyers recently with mortgage rates continuing to trend down. This follows a shift in view amongst investors around the future path of bank rate, with investors becoming more optimistic that the Bank of England (BoE) will lower rates in the years ahead.

Thankfully homeowners and investors didn't have to wait too long for an update from the BoE on rates, as much like Phil the Groundhog, those at the bank poked their heads out of their own burrow on Threadneedle Street, announcing that borrowing costs will be maintained at 5.25%. What is of particular interest is that six of its nine members voted to keep rates at 5.25%, with two voting for a further 0.25% hike and one voting for a cut of the same size.

Interestingly, it marked the first time since August 2008, during the first months of the global financial crisis, that different policymakers have voted to move interest rates up and down at the same meeting. Nonetheless, sterling and government bond yields rose modestly after the BoE announcement, indicating that investors are slightly reining in their bets on the extent of rate cuts to come for 2024, but still see four 0.25% reductions for the year.

Whilst the humble groundhog may fear its own shadow, the long shadow higher rates have cast in the US may slowly be dissipating. On Wednesday evening, Chair of the US Federal Reserve, Jay Powell, announced that the bank would hold rates where they are. Commenting that "Inflation is still too high. Ongoing progress in bringing it down is not assured… We've got six good months of inflation data and an expectation that there's more to come", buying the central bank more time to evaluate incoming financial data.

However, the Fed repeatedly stated how strong the US economy remains, "the executive summary would be growth is solid to strong… Let's be honest, this is a good economy." It seems we will have to wait a little longer for the rate cuts with the US economy failing to weaken sufficiently, indeed, markets are now pricing in only about a 35% chance of US rate cuts starting in March, whereas last week it was 60%. Incidentally the chances of a first rate cut in May jumped after the Fed's announcement.

Of course, it was quite literally Groundhog Day for investors on Friday, as US Non-Farm Payroll data once again showed yet more Americans joined the labour force than previously anticipated. 353,000 people found employment this month, much more than a predicted 187,000, with wages rising 0.6% monthly, double the 0.3% economists prophesised. Such a strong labour market has proven a thorn in the Fed's side for a while now and this week's figures will certainly give the central bank something to consider when judging future inflation.

From market forecasting to weather forecasting, Friday of course also brought with it the big day itself, where all eyes in the US moved from Wall Street to the interestingly named Gobbler's Knob in Punxsutawney, Pennsylvania, where Phil's burrow is located. Happily, unlike the previous two years, the legendary groundhog did not see his shadow and happily came out of his hole, signalling an early Spring. It seems however you look at it, the sun is still very much shining on the US economy at the moment…

This coming week

They say all you need is confidence, so what better way to start a busy February than checking in on European investors, with survey firm Sentix, releasing its investor confidence data on Monday.

The numbers will act as a leading indicator of economic health due to investors and analysts being highly informed by virtue of their job, with changes in their sentiment an early signal of future economic activity. The survey itself asks about 2,800 investors and analysts to rate the relative 6-month economic outlook for the Eurozone with its sheer breadth and size potentially having a marked effect on financial markets, especially in Europe.

With anticipation building towards a possible Bank of England (BoE) rate cut during the summer, details of building activity, specifically in the Construction sector could really influence the central bank’s thinking. Construction Purchasing Manager Index (PMI) readings, much like the investor confidence numbers, prove to very useful in aiding our understanding of the economic backdrop, as companies react quickly to market conditions, with their purchasing managers holding perhaps the most current and relevant insight into the company's view of the economy.

Staying with the domestic property market, Thursday will see the Royal Institution of Chartered Surveyors (RICS) release their House Price balance data. The numbers are vitally important, especially for the housing and wider market as the data they release represents the percentage of surveyors reporting a price increase in their designated area, acting a s a prime measurement of housing inflation. To add context, above 0.0% indicates more surveyors reported a rise in prices, below indicates more reported a fall. With the previous reading sitting at -30%, but jumping from -43% two month ago, many will be hoping that the trend continues as hope that rates have peaked in the UK gain traction.

Thursday will also bring with it Chinese inflation numbers, as well as US unemployment figures. Both pieces of data giving us an insight into how the largest two economies in the world are faring. With the fortunes of the two diverging somewhat over the previous year, the US economy remaining robust, whilst China's reopening from Covid lockdowns patchy at best, it will be interesting to see if the data indicates any change in fortune.

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