Article MARKET COMMENTARY

Market round-up: 12 February- 16 February

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

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This week just ended

Shrove Tuesday, also colloquially known as Pancake Day, has a range of names and monikers around the world, perhaps the best being *Sprengidagur* in Icelandic, meaning 'bursting day'. Originally referring to the amount of food eaten before fasting for Lent, perhaps those in Iceland have got it right in a financial news sense too, as investors also got their fill from a glut of headlines released on the day.

Giving the market the crepes on Tuesday, much anticipated US inflation data released by the Bureau of Labor Statistics, showed that prices rose more than expected in January amid a surge in the cost of rental housing, with the overall annual figure coming in at 3.1%, above estimates of 2.9%. The data was also the strongest in four months, occurring against a backdrop of persistent labour market strength and economic resilience. Driving up the reading was food prices, rising 0.4%, the most in a year, which was partly blamed on winter storms.

It was with some irony that the higher than expected data led to a good battering for markets, with the selloff deepening in the US during the evening, just as many of us flipping our pancakes in the UK. With all three US mainstream indices dropping over 1%, investors began tapering their bets on when the US Federal Reserve would begin cutting rates, with the market now pricing in a 74.4% chance in June, shifting from May, which now just holds a 36% probability, down from 61% at the beginning of the week.

Inflation data was also released on domestic shores during the middle of the week, showing that changes in price rises were as flat as the proverbial pancake, registering a 4% rise, holding steady from last month. The data also complimented a report from the Office for National Statistics (ONS) on Tuesday that showed wages rising by an annual 6.2% during the last three months of 2023, the slowest increase in more than a year. Both pieces of data showed that progress was being made on inflationary pressures, but not as quickly as the Bank of England require to cut rates any time soon. Much like in the US, investors are now predicting the central bank will act in June at the earliest.

Whilst expectations of a rate cut look similar in for both the UK and US, the two economies are very much the *flip* side of each other, with worse than expected Gross Domestic Product (GDP) figures released for the UK on Thursday, contrasting the strong numbers we saw for the US last week. Acting as the broadest measure of economic activity and the primary gauge of the economy's health, the latest quarterly reading contracted by a worse-than-expected 0.3% in the three months to December, having shrunk by 0.1% between July and September. Two consecutive negative quarters of economic growth point towards a technical recession.

The fall in GDP in the fourth quarter was the biggest since the first three months of 2021 when Britain imposed new COVID-19 restrictions. The ONS's report blamed the slip into a recession on the manufacturing, construction and wholesale sectors which were the largest contributors to the decrease in GDP over the last three months of last year.

In stock specific news, investors were further *whisked* away by the boom in Artificial Intelligence (AI) stocks this week, with Chipmaker, Nvidia, overtaking both Amazon and Alphabet (Google) in terms of market capitalisation. Since hitting the trillion-dollar mark in June, Nvidia's shares have risen a further 80%, buoyed on by its graphic processing units for AI, valuing the chipmaker as the third largest listed company in the US, just behind Apple and Microsoft.

The previously little-known 30-year old tech company has seemingly come from nowhere in recent years, since listing on the stock market, in January 1999, NVIDIA's total return has been well over 61,000%, with much of that return coming over the last few years, proving that the recent boom in AI and its potential applications are anything but *waffle*...

This coming week

Setting the president for a quiet start to the week, US markets will be closed on Monday, in observance of President's Day, potentially resulting in lower levels of trading and liquidity in the market.

In fact, it is not really until Wednesday that there will be any major economic news of note. Having waited for three whole days, it will be the minutes that investors will be particularly interested in, as the middle of the week sees the US Federal Reserve releases the notes from its last meeting. The minutes themselves provide a detailed record of the Fed's most recent meeting, providing in-depth insights into the economic and financial conditions that influenced their vote on where to set interest rates. Investors usually scrutinise the details for any hints, clues or changes of language from the central bank, causing potentially higher market volatility on release.

The middle of the coming week will also bring with it a host of Purchasing Manager Index (PMI) data, 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.

With inflation starting to cool on the continent, it is worth checking the economic temperature in Europe's largest economy on Friday, Germany. Business climate survey results are well respected by economists, predominantly due to its large sample size. 9,000 German businesses are asked to rate the relative level of current business conditions and expectations for the next 6 months, acting as a strong a leading indicator of economic health; businesses tend to react quickly to market conditions, with changes in their sentiment being an early signal of future economic activity such as spending, hiring and investment.

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 16 February 2024.

Risk warning

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