Home Market round-up

Article MARKET COMMENTARY

Market round-up: 26 February - 01 March

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

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This week just ended

They say a day is long time in markets, however is it actually as long as we think? If we base our notion upon the solar system, with the earth completing one full rotation as it makes its way around the sun, then it definitely isn't. As any astrologer will tell you, Earth's orbit is in fact an ellipse, not a circle, moving faster in its orbit when it's closer to the sun, and slower when it's furthest away, taking precisely 23 hours, 56 minutes, and 4.09 seconds to make its way round.

With this in mind, (almost) every four years, our calendar gifts us an extra day, 29th February, falling on Thursday this week. Finishing off what has been a longer month than usual, it was indeed a long week for investors as markets drifted lower on Monday and Tuesday, with many refusing to make their own leap (of faith) before important US inflation data was released on Thursday. Aptly, during what was a relatively quiet start to the week, investors were given plenty of time to look before they leapt, with only really the British Retail Consortium (BRC) Shop Price Index figures having an effect on domestic risk sentiment.

With the broader measurement coming in at 2.5% on an annual basis, down from 2.9% in January, the BRC's numbers also showed that food price inflation slowed to its lowest rate for nearly two years, an encouraging sign for the Bank of England's battle against price rises. The data also showed that the cost of meat, fish and fruit all dipped during February, meaning food prices rose 5% on last year, down from 6.1% in January, their lowest since May 2022. Some areas of retail did show price rises however, such as furniture, electricals, and health and beauty products, however, the clothing sector did fall as retailers attempted to lure shoppers with promotions.

As mentioned, the real *star* piece of data this week was from the US, as the Bureau of Economic Analysis released its Core Price Consumption Expenditure (PCE) Index numbers. The data differs from normal inflation readings in that it only measures goods and services targeted towards and consumed by individuals. Normal CPI readings also only cover out-of-pocket expenditures on goods and services purchased. It excludes other expenditures that are not paid for directly, for example, medical care which is usually paid for by insurance in the US. These are, however, included in the PCE. Adding even more importance to the figures is that the data is reportedly the preferred piece of data for the US Federal Reserve, using it as their primary inflation measure.

U.S. prices picked up in January by 0.4%, in line with expectations, but for context, that increase inflation was the smallest in nearly three years, The numbers also suggested that consumer spending for January had fallen by 0.1% monthly. Weaker spending growth should gradually help dampen inflation pressures over the longer term, keeping a June interest rate cut from the Federal Reserve firmly on the table.

A separate report from the US Labor Department on Thursday showed initial claims for state unemployment benefits rose 13,000 to 215,000 last week, slightly ahead of economists' forecasts of 210,000 claims, also adding to a narrative of slowing inflation.

With no nasty surprises coming from the slew of US data, the technology-heavy NASDAQ index hit a record close, the first time in two years it has scaled a new peak. In bond markets, the yield on U.S. 10-year Treasury fell 0.6% to 4.26%, The 2-year Treasury yield, which typically moves in step with interest rate expectations, was roughly flat at 4.64%.

There was also interesting data on domestic shores towards the end of the week as the Bank of England released its M4 money supply data. Detailing the change in the total quantity of domestic currency in circulation and deposited in banks is a useful way for economists to gauge where we are in the economic cycle. The statistics showed that net consumer credit borrowing rose to £1.9 billion in January, from £1.3 billion in December. This was mainly driven by higher borrowing through credit cards, which rose from £0.3 billion in December to £0.9 billion in January. Net borrowing through other forms of consumer credit (such as car dealership finance and personal loans) also increased slightly, from £0.9 billion in December to £1 billion in January.

Whilst an astrologer may tell you that the sun's gravitational pull and Newtonian mechanics keep the earth spinning, it seems this week has provided a strong argument that it is indeed money, that makes the world go round…

This coming week

The first full week of March, a month synonymous with daffodils, brings us a crowd, a host of economic data releases.

Whilst perhaps not a poetic as Wordsworth, our first stop will be on the continent, with European investor sentiment data released on Tuesday. *In vacant or in pensive mood?* The results of a survey of about 2,800 investors and analysts which asked to rate the relative 6-month economic outlook for the Eurozone, should tell us. The data is so key for economists as it acts as a leading indicator with investors and analysts being highly informed by virtue of their job, with changes in their sentiment can be an early signal of future economic activity.

Almost as co*ntinuous as the stars that shine*, Tuesday also provides us with a mass of Purchasing Manager's Index (PMI) readings. Covering the 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. Businesses will be asked to rate the relative level of business conditions including employment, production, new orders, prices, supplier deliveries and inventories.

The middle and end of the week should be distinctly US based, firstly with US Federal Reserve Chair, Jay Powell, set to *stanza* and testify about the bank's Semi-Annual Monetary Policy Report before the House Financial Services Committee, in Washington DC. The testimony usually comes in two parts: first Powell reads a prepared statement, then the committee will hold a question-and-answer session. Since the questions are not known beforehand, they can make for some unscripted moments that lead amplified market volatility.

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 gauge future demand expectations more accurately as the future demand expectations more accurately as the more consumers earn, the more they tend to spend. For better or *verse*, 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.

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Back to top

Risk warning

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