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Article MARKET COMMENTARY

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Tom Watts recaps the week and looks ahead to next week.

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Duration: 4 Mins Date: 03 May 2024

This week just ended

The past week not only saw a change in the weather (sort of), but also in the month, as April transitioned to May in typically blustery fashion. However, whilst a relatively quiet week on domestic and European shores now, the last few days would have been very different a millennium or so ago.

Celebrating the rites of Spring, May festivities were first recorded in Ancient Rome, with the Festival of Flora (Floralia), taking place between 28 April and 3 May, to honour of the goddess of flowers, fertility, and Spring. Whilst the notion sounds elegant, the occasions were notorious for lewd and chaotic behaviour, including vegetables being thrown whilst wild hares and deer were released into the celebrating crowds, often as symbols of potency.

Although thankfully not as rowdy as years gone by, from an investor point of view, the week did somewhat blossom after data on Tuesday showed that China's factory output expanded at its fastest rate in 14 months. Driven by a solid uptick in new export orders, the data also acted as an encouraging sign for an economy still struggling to mount a robust recovery, although the numbers still pointed to a protracted downturn in the property sector.

The data also showed that Chinese companies were cautious about adding employees, with the relevant sub-index remaining negative since August last year. Employment levels also fell for an eighth straight month in April amid resignations and redundancies due to restructuring efforts, according to the survey, underlining the margin strains Chinese businesses continue to face.

Domestically, it was difficult to *pick* a winner from the slew of softer UK data released this week. Results from a survey of purchasing managers from the manufacturing sector showed renewed signs of weakness at the start of the second quarter. April saw output and new orders slip back into contractionary territory following short-lived upturns in March, as uncertain market conditions, client destocking and supply-chain disruption (mainly relating to the Red Sea crisis) stymied opportunities for sustained expansion. Interestingly, the downturn in new export business now extends to 27 successive months, with reports of weaker intakes from Germany, Ireland, Asia, and the US.

The second half of the week was very much US focussed as the Federal Reserve had the chance to telegraph the chances of a rate cut this year *once and floral*. It seems that it will take a while longer yet with the Fed Chair, Jerome Powell, saying it was likely to take longer than previously expected for central bank officials to gain the "greater confidence" needed for them to begin to cut borrowing costs. "Inflation is still too high," Powell said in a press conference after the meeting, "Further progress to bring it down is not assured and the path forward is uncertain…It is likely that gaining greater confidence will take longer than previously expected."

The first Friday of the month brought with it US Non-Farm Payroll data as usual, measuring the number of Americans that were added to the domestic labour force over the past month. The data proved to be something of a rose among thorns for the US Federal Reserve, coming in weaker than anticipated for the first time in a while. Only 175,000 American's gained employment during April, compared to the 238,000 many economists had predicted, leaving the unemployment rate to tick up 3.9% from 3.8%. Good news for inflation-watchers also appeared in the form of average hourly earnings, which fell to a 0.2% rise, from 0.3%. With such weak data, acting as a potential catalyst for slowing inflation, it was very much a *peony for your thoughts*, Jay Powell…

This coming week

Enjoying a shortened week here on domestic shores thanks to the Early May Bank Holiday, the UK should be not only basking in the glow of that early Spring sunshine but also a slew of economic data, with housing news on Tuesday to really warm economists up.

High street lender, Halifax, releases its House Price Index numbers, measuring the change of value for properties on its books at an interesting time for those looking to buy or sell a house, only adding to the weight of the announcement. Next week's data comes hot on the heels of Nationwide's own housing data which showed house prices fell in April, as potential buyers continued to face pressures on affordability.

The UK's biggest building society also said that UK house prices were down by 0.4% compared with the previous month, affected by a string of lenders pushing up rates on new fixed-rate mortgage deals in recent days. The Halifax is the latest lender to announce higher rates, with a plan to put up the cost of much of its mortgage range by 0.2% on Thursday.

In what will be a very stop-start week on the continent, with various bank holidays spread across Wednesday and Thursday in Europe, it is up to our very Bank of England (BoE), to make the headlines, as the central bank reports its latest base rate decision. Widely expected to keep rates where they are at 5.25%, investors will be focusing on the accompanying report and press conference for forward guidance on when and how much the bank will be looking to cut rates by as the year progresses. Whilst we may not get definitive answers to these questions, consistently falling inflation and weak economic growth have laid a path for the bank to start preparing to cut later in the year and so any hints dropped could have an amplified impact on markets.

Hot on the heels of the BoE's rate decision, we also get UK Gross Domestic Product (GDP) figures the next day, acting as the broadest measure of economic activity. With the UK having slipped into a technical recession towards the end of 2023, as defined by two consecutive declines in quarterly GDP, the coming data preliminary quarterly data for the January to March of 2024 is widely expected to show the domestic economy has returned to growth, giving investors plenty to celebrate at both the beginning and end of the week.

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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.

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