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Article    MARKET COMMENTARY

# Market round-up: 06 - 10 May

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

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## This week just ended

When it comes to the unsung heroes of the British working week, Sir John Lubbock, the first Baron of Avebury, has to be right up here. During the early part of the 19th century, the Bank of England (BoE) observed around 33 saints' days and religious festivals as public holidays but reduced these to just four in 1834 (1 May (May Day), 1 November (All Saints Day), Good Friday, and Christmas Day).

However, during 1871, Sir John, introduced the Bank Holidays Act, giving us the rough structure of days off we enjoy today. So popular were Lubbock and his reforms at the time, the *Daily Telegraph* even suggested naming the new August bank holiday "St. Lubbock's Day" in his honour.

With this week now forever shaped by Lubbock and his role at the BoE, it is somewhat apt that those on Threadneedle Street carried on the tradition, making the headlines during a week they have had a hand in shaping. Keeping borrowing costs steady at 5.25% on Thursday the bank said it needed "to see more evidence that inflation will stay low before we can cut interest rates," but it was "optimistic that things are moving in the right direction". Interestingly, the BoE's rate cutting committee voted 7-2 to maintain rates, with Deputy Governor, Dave Ramsden, joining Swati Dhingra in voting for a cut, many economists had expected the same 8-1 split that was seen last month.

Investors have been trying to calculate when the central bank is likely to begin cutting, with financial markets now close to fully pricing a 0.25% cut in August and another in November or December followed by more cuts in 2025. However, after this week's announcement, those predictions may seem too conservative, with the BoE also cutting its inflation forecasts for two and three years' time to 1.9% and 1.6%, from its February projections of 2.3% and 1.9%, with both now firmly under its 2% target.

Whilst the UK stock market hit another all-time high on the back of the press conference, it was the pound and government bond yields that took the day off, with sterling falling 0.25% against the US dollar. The interest-rate sensitive two-year gilt yield was last down 0.03% at 4.29% having been at almost 4.33% earlier.

One of Lubbock's initial reasons for securing more days off for workers was to shorten the number of hours worked in shops and stalls here in the UK. With this in mind, the week also gave us various important labour related data, none more so than jobless claims in the US. Proving to be remarkably resilient in the face of historically high interest rates, the US labour market seems to finally be showing some cracks as data showed the number of Americans filing new claims for unemployment benefits rose last week to the highest level in more than eight months. 231,000 Americans made a claim last week, ahead of the 212,000 forecast and only served to further emphasise a slowdown in the jobs market other pieces or employment data, such as last week's weak Non-Farm Payroll figures.

Having gained something of a reputation for being eccentric character, Lubbock was not only a skilled banker and politician, but he also held a great interest in science and animals, resulting in a great many efforts to teach his poodle to read…and claims he had successfully tamed a wasp as a pet, that would happily let him stroke it without consequence…

UK Gross Domestic Product (GDP) figures released on Friday, much like Lubbock's wasp, failed to produce a much-feared sting in the tail, showing the UK exited the shallow recession it fell into last year with a boom. Data released showed that the economy grew by the most in nearly in three years during the first quarter of 2024, growing 0.6%, ahead of expectations of 0.4%. GDP per head also rose for the first time in two years, up 0.4%, but was 0.7% lower than a year earlier, highlighting the ongoing squeeze on living standards and a struggle to boost productivity.

## This coming week

With the warmer weather finally here and the summer holidays not too far away now, many will be looking to book that getaway to the continent sooner rather than later. For economists however, this dream could arrive earlier than expected as the Eurozone releases a slew of data early in the week.

With the European Central Bank (ECB) growing increasingly likely to cut rates next month, the key piece of data to look out for will be the European Commissions' own economic forecasts. The report itself includes economic forecasts for EU member states over the next 2 years, and covers about 180 variables, making it a wide ranging and essential piece of data for assessing the strength of the continent's economy. Complimenting the data the next day, we will also receive the Eurozone's largest economy's, Germany, final inflation numbers, also due to have a large impact on what the ECB does next in terms of rates.

On the subject of inflation, all eyes will be on the US by the middle of the week as the Bureau for Labor Statistics releases its Consumer Price Index (CPI) figures. Releasing both its "Core" and "Headline" readings, the data will come in two parts, with Core stripping out more volatile parts of the numbers such as fuel and food prices, giving us a truer reading of the inflationary landscape in the US. The figures will also be released alongside retail sales data, giving investor's a much more comprehensive view of the world's largest economy.

The end of the week will see the world's second largest economy take centre stage, as China releases its industrial production and retail numbers. For a manufacturing-based economy such as China, industrial production figures can be very important for economists. The reading acts as a leading indicator of economic health, as production is the dominant driver of the economy and reacts quickly to ups and downs of the business cycle.

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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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