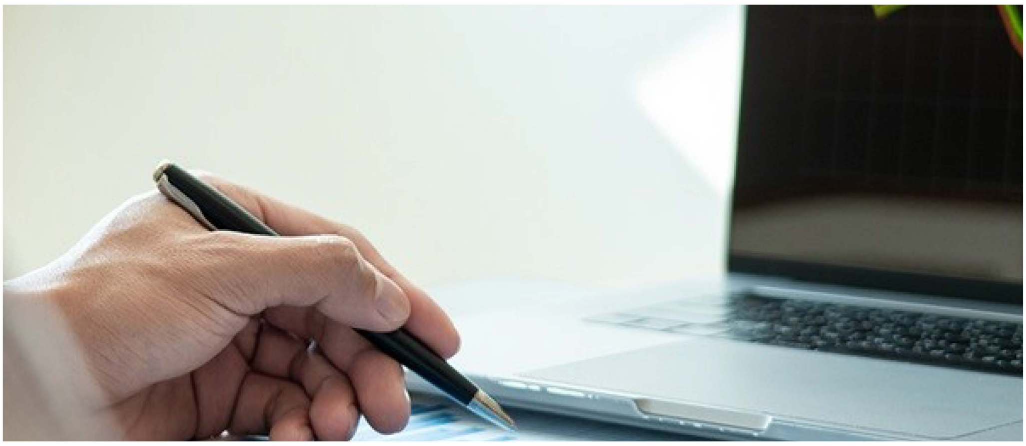
Home Market round-up



Article MARKET COMMENTARY

Market round-up: 03 - 07 June

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

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This week just ended

The Aman Club, with its $200K joining fee and cryotherapy chamber, Casa Cipriani with a 4,000-person waiting list to join, or Zero Bond, housing several million dollars of priceless artwork from the likes of Andy Warhol to Robert Mapplethorpe, all just some of the more exclusive private members hangouts to be found in New York City.

All located in the salubrious borough of Manhattan, there are few more difficult places in the world to try and become a member of. However, there is one club that is even more exclusive in New York, located just a stone's throw away in the Financial District, on Wall Street to be exact, allowing only the 3rd member though its doors this week.

Wednesday saw Nvidia become the world's second largest company this week and join an elite club of U.S. companies to have ever sported a $3 trillion market value (Apple and Microsoft), as investors piled into the chipmaker that has quickly become one of the biggest winners of the recent Artificial Intelligence boom. Nvidia's stock rose a further 5.2% during the middle of the week, adding to the 147% it has already risen this year, valuing the company at $3.012 trillion, overtaking Apple's market capitalisation, last at $3.003 trillion.

It was very much a case of "join the club" this week as two central banks made historic moves to cut interest rates. First the Bank of Canada (BoC) lowered its borrowing costs by 0.25% to 4.75%, its first cut in four years. On the news, the yield on the Canadian 2-year government bond fell 11 basis points to 3.946%, its lowest level since the 2 February, as investors predicted that the BoC would ease rates further in the coming months.

If your rates aren't down, you're not coming in, as the following day saw the European Central Bank (ECB) follow suit, also cutting rates by 0.25% to 3.75%. The central bank acknowledged progress in its battle against high inflation but also signalling that the fight had yet to be won as inflation was set to remain too high until next year. Introducing its first rate cut in five years, the move was very much priced in by investors, with futures pricing in a 92% chance earlier in the day.

Christine Lagarde, President of the ECB declared, "Based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission, it is now appropriate to moderate the degree of monetary policy restriction after nine months of holding rates steady," forecasting that inflation will average 2.5% in 2024, and then drop to 2.2% in 2025.

From joining clubs to joining the labour force, Friday signalled the release of US Non-Farm Payrolls, detailing the number of Americans starting a new job this month. The data showed that 272,000 Americans obtained a job over the last month, far more than the 182,000 predicted by economists. The unemployment level rate did rise to the symbolic 4% level however, whilst average wages ticked higher by 0.4%, giving the data a distinctly mixed feel and plenty for the Federal Reserve to think about when they club together in a few days for their next meeting.

This coming week

Having seen both the European Central Bank (ECB) and Bank of Canada (BoC) cut interest rates last week, investor's attention will now switch to both the US and UK, as the coming week presents us with several markers as to when the two economies are in terms of requiring a rate adjustment.

With the UK labour market having proven remarkably resilient in the face of rising rates, Tuesday will give us the opportunity to check one facet of the employment landscape for weakness, the Unemployment Claimant Count. Measuring the change in the number of people claiming unemployment related benefits during the previous month, the figures are crucial in understanding the strength of the overall market as the figures contribute strongly to the unemployment picture.

A more comprehensive picture should be painted for the broader domestic economy the following day as the Office for National Statistics releases its Gross Domestic Product (GDP) figures. GDP is often considered the broadest measurement of the health of an economy, gauging the change in the total value of all goods and services produced by a country. With the UK having just exited a shallow recession with economic growth have re-entered positive territory, many will be hoping that the trend can continue. The data also takes on added significance as it acts as one of the final pieces of big economic data before the upcoming general election and will be sure to influence voter thinking when heading to the polls.

All eyes will be on the US during the middle of the week for the nation's inflation figures, a piece of data that could well set the tone for the coming months. With financial markets predicting that a US rate cut in September stands on a knife edge, pricing in around a 50/50 chance the US Federal Reserve will make its move that month, next week's CPI data could prove crucial in shaping the thoughts of its rate setters. For the record, the Fed is set to announce it base rate for this month shortly after the data is released but with markets not even pricing in the slightest chance of a rate cut, investors will be keen to analyse the central bank's forward guidance.

The theme of central bank press conference and rate setting caries on throughout the second half of the week as the Bank of Japan (BoJ), also give their views on the world's third largest economy. Although the BoJ is widely expected to raise rates further in the coming months, there is a broad consensus that this will be a slow process and we should not expect the bank to rush. With this in mind, investors could take a wait and see approach, scrutinising the accompanying press conference for any hints of future rate policy from the bank themselves.

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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.