



Article MARKET COMMENTARY

Market round-up: 10 - 14 June

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

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This week just ended

"Prediction is very difficult... especially if it's about the future."

-Nobel Prize-winning physicist Niels Bohr

In many ways weather forecasting has a lot in common with market forecasting. Through booms or busts, record highs and unseasonably low levels, the global economy changes temperature all the time, and much like the weather, it's all about predicting that long term trend.

The previous week has showed us that markets and the weather have more of an impact on each other than you might think, especially after the Office for National Statistics released its monthly Gross Domestic Product (GDP) figures for April. The UK economy failed to grow during the month, largely down to the terrible weather the month endured. The data showed that the well above average rainfall put many consumers off not only venturing outdoors to spend their cash, but also putting off purchases for a new summer wardrobe or trips to some of the UK's beauty spots. The heavy rains also had an impact on certain areas of the construction industry too, with work slowing until the sun made an appearance.

There were some bright spots for the UK however, as some parts of the services industry outperformed. Information technology, the communications industry and the scientific sector all saw strong rates of growth.

It seems the clouds are also gathering for the UK labour market, with data published earlier in the week, with the employment landscape showing further signs that is beginning to cool. The unemployment rate was shown to have crept up to its highest since September 2021, rising to 4.4% and above estimates of a reading of 4.3%.

Overall, it was a case of sunshine and showers for the majority of the report, with wage growth data remaining hot, a key gauge of inflation pressure for the Bank of England (BoE). Nominal average weekly earnings excluding bonuses grew by 6% in the three months to the end of April, on an annual basis. Wage growth in the private sector, also watched closely by the BoE as a gauge of domestic inflation pressure, cooled to 5.8% from 5.9% in the three months to April, but remains far above where the central bank would like it when it comes to inflation considerations.

Come rain or shine, US inflation figures always take centre stage for investors, with Wednesday seeing markets shift their gaze to the world's largest economy. Data showed that prices were unexpectedly unchanged in May as cheaper petrol and other goods offset higher costs for rental housing, however it seems that inflation remains too high for the Federal Reserve to start cutting interest rates before at least September.

The report also showed underlying inflation pressures had abated significantly last month, with the cost of items such motor vehicle insurance declining on a monthly basis for the first time since the fourth quarter of 2021. The data prompted financial markets to boost the probability that the U.S. central bank would cut rates in September as well as in December, although that prediction could be short lived.

Projections from the Fed, released only a couple of hours later, showed that the central bank is only pricing in one 0.25% rate cut before the end of the year now. With growth and unemployment lodged at levels better than the U.S. central bank considers sustainable in the long run, Fed Chair Jerome Powell said policymakers were content to leave rates where they are until the economy sends a clear signal that rates need to be cut, commenting, "These dynamics can continue as long as they continue...We've got a good strong labour market. We think we've been making progress toward the price stability goal. We're asking ... is our policy stance about right? And we think yes, it's about right."

Jay Powell's press conference somewhat overshadowed the lower than anticipated inflationary data released beforehand, but in a week where constant rain was shown to have taken its toll on the UK economy, maybe we should be thankful for someone stealing all the thunder...

This coming week

With football's European Championships getting into full flow in Germany, where better to head for both fans and economists alike, than the continent where it kicks off this evening as Scotland take on Germany in the opening match.

Tuesday not only brings us inflation data for the Eurozone but also a raft of Germany specific data, such as economic sentiment for the bloc's largest economy. The results of the survey are so well respected due to the sheer breadth of its sample size, asking about 275 German institutional investors and analysts to rate the relative six month economic outlook for the Eurozone. The data is also very useful as it acts as a leading indicator of economic health, with investors and analysts being highly informed by virtue of their job and changes in their sentiment can be an early signal of future economic activity.

If there is one country who won't be playing in the tournament (or won't even know it's on) it's the US. Whilst the sales of flags, replica football tops and alcohol usually spike around this time of the year domestically, especially if some teams progress further than others, we will see things from a different angle with Tuesday's US data. Retail sales figures, especially in the US, where inflation remains stubbornly high, should offer a useful gauge to judge whether price rises will start to slow soon, with the consumer tightening their belt. The data also gives us an indirect view on the labour market, with a free-spending consumer hinting at an employment landscape that continues to offer an ample number of jobs on offer and rising hourly remuneration.

With England set to start their campaign this week too, it will be pertinent to listen to the Bank of England (BoE) and get an update on the campaign they have been waging on inflation for the last 2 years now. Those on Threadneedle Street are due to hold a press conference on Thursday, announcing any moves on base rates after their most recent committee meeting. With futures markets predicting that the bank won't cut until later in the summer, many investors will be looking towards any forward guidance for hints on when this will come.

However, unlike May's press briefing, June's decision will just be accompanied by a brief statement rather than the full monetary policy report and press briefing. So, if there is no change to interest rates this week, there would be little guidance on when this is likely to happen.

Alongside the statement, one clue will help us should come from the bank's voting patterns. Last month seven members of the Monetary Policy Committee (MPC) voted to hold, while two voted for a cut. It's likely that more of the MPC could join the cut cohort, but probably not enough to force a decision just yet.

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