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Article MARKET COMMENTARY

Market round-up: 17 - 21 June

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

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This week just ended

On the 20 June, for the past 5,000 years, visitors to the neolithic monument of Stonehenge have been able to watch the sun's rays rise through the very heart of the stones. As any young person born and bred in the area will tell you, the sun will rise behind the structure's Heel Stone with its rays being channelled into the centre of the monument, during what the Druids call Alban Hefin – the Summer Solstice. With Thursday seeing the Earth's axis being the

the most tilted towards the sun it can be, the northern hemisphere enjoyed the longest day of the year. However, for economists and politicians alike, the day could have felt even longer.

From the Heel Stone in Stonehenge, marking the point on the horizon the sunrise appears from, to just bringing inflation to heel, any hopes that the Bank of England (BoE) may look to cut borrowing costs during its press conference on Thursday were dashed by hot inflation data released the day before. Whilst the reading was encouraging, showing that headline price rises had fallen to within the BoE's 2% target for the first time since 2021, there were underlying price pressures hidden in the data that are worth shining a light on.

The Office for National Statistics' data showed services price inflation, which the BoE believes gives a better picture of medium term inflation risks, came in at 5.7%. Whilst down from 5.9% the previous month, the reading was higher than the 5.5% consensus estimate and much more than the 5.3% the central bank had predicted a few weeks ago.

The fall in inflation was partly driven by the cut in household energy bills during April, the effect of which will fade later in the year, with those on Threadneedle Street forecasting a rise back up to 2.6%.

Lower food prices were actually the largest factor pushing inflation down in May, reducing the annual rate of inflation for food and non-alcoholic drinks to 1.7%, down from a 45 year high of 19.2% back in March 2023. Cheaper electrical appliances and a smaller rise in the cost of recreational and cultural activities also helped to keep price rises modest.

Enjoying its moment in the sun, Thursday saw the BoE confirm what many expected, keeping rates stable at 5.25%, their highest for 16 years. Also in line with expectation was the voting pattern for the bank, with its nine officials voting 7-2 again in favour of the status quo, with just Deputy Governor Dave Ramsden and external MPC member Swati Dhingra remained the only policymakers to support a cut to 5%.

The bank did however leave the door open for a rate cut during their upcoming meeting in August. Although the accompanying policy statement much the same for the May meeting, it was noteworthy that the decision not to cut was described as "finely balanced" for some members of the Committee, suggesting some on the committee could change their mind after a few more favourable data points.

As the sun set on another busy week, economists were given plenty to shine a light on as domestic retail sales data helped round off what was a busy week for market watchers. Jumping sharply from last month, after heavy rain kept shoppers away the high street over the Easter period, sales volumes rose 2.9% in May, up from a disappointing 1.8% fall in April and way ahead of expectations of a 1.5% rise. sales volumes rose across most sectors last month, with clothing retailers and furniture stores rebounding especially strongly.

In stock news, much like the sun reaching its highest point in the sky this week, so Nvidia's sky high returns helped it to become the world's largest listed company. Although only briefly, Tuesday saw the AI darling overtake Microsoft, growing to a market cap of $3,335 trillion, before falling back down to second place on Friday. Sunrise, sunset as they say.

This coming week

They say that investing is all a matter of opinions, if so, then the beginning of the coming week could be an important one, especially in Japan. Monday sees the world's third largest economy's central bank release its "Summary of Opinions", detailing both their projections for inflation and economic growth. The data is one of the primary tools the Bank of Japan (BoJ) uses to communicate its economic and monetary projections to investors.

With the solstice having passed the previous week, it is apt that we stay in the Land of the Rising Sun for the majority of the beginning of this week, as the BoJ release its Core CPI numbers on Tuesday, detailing the change in the price of goods and services purchased by consumers in Japan. With the Japanese central bank being more explicit of late, confirming that they may adjust base rates if inflation accelerates as expected and that a July rate hike is possible depending on data conditions, the release should take on added significance for investors.

It what could be a quiet second half of the week, we should expect some noise coming from Threadneedle Street as Bank of England (BoE) Governor, Andrew Bailey, is due to hold a press conference about the Financial Stability Report, in London on Thursday. Having held rates steady last week but left the door ajar for a possible rate cut in August, investors will be scrutinising all of Bailey's future public engagements for any hints of how the BoE may vote heading into the late summer.

The end of the week should be wrapped up in the US as one of the mostly hotly anticipated data releases is made public on Friday, monthly Core PCE Price Index readings. Predicted to make quite the impact on the markets after its release, the data differs from normal inflation readings in that it only measures goods and services targeted towards and consumed by individuals. CPI readings also only covers 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.

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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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