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Article MARKET COMMENTARY

Market round-up: 22 - 26 July

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

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Duration: 5 Mins Date: 26 Jul 2024

This week just ended

In a week that saw the Treasury deny that copper coins are to be phased out after it failed to order any new 1p and 2p pieces from the Royal Mint this year, a separate report showed that the number of people mainly using cash for day-to-day spending has hit a four year high, with some 1.5 million adults still predominantly making purchases with physical cash. With coins making it into the news on a number of occasions recently, it is apt that it has been "all change" this week for financial markets too.

Rather aptly, there was plenty to *take note* of this week as US earning season got under full swing, with disappointing quarterly reports from heavyweights such as Tesla and Google-parent Alphabet sparking a crushing market sell-off. One of the largest fallers was investor darling, electric car manufacturer Tesla, who saw its shares slip 12% on Wednesday after CEO Elon Musk's talk of humanoid robots and driverless taxis failed to comfort investors worried about the company's shrinking profit margins. With large AI and technology companies having pushed global markets to all-time highs several times this year, on the other side of the coin, concern has grown over such companies' stretched valuations and so any miss in earnings could have amplified ramifications.

Turning on a dime, the tech-heavy Nasdaq posted its largest single-day percentage decline since October 2022 on Wednesday to finish at its lowest point since the beginning of June. The S&P 500 Communication Services and Consumer Discretionary sub-indices down by 3.8% and 3.9% respectively, with the Consumer Discretionary index posting its largest single day fall since September 2022 on the same day.

To coin a phrase, 'stick to the fundamentals' and whilst global markets shed over $3 trillion over six working days, economic data remained remarkably robust. The middle of the week saw a raft of Purchasing Manager Index readings released for both the Manufacturing and Services sectors, giving as insight into how businesses are viewing the current economic backdrop, with domestic gauges being particularly strong.

The data for the UK showed Services activity growth accelerated slightly, while manufacturing output rose to the strongest degree since February 2022, with the upturn encouraging firms to increase their staffing numbers at the quickest pace for 13 months. Sales growth across both manufacturing and services also accelerated in July, leading to the strongest increase in total new business since April 2023. Companies often commented in the survey about an improvement in market confidence and the securing of new contracts. Crucially, demand from overseas also improved, with firms indicating the fastest uplift in new export orders for 16 months.

With US Gross Domestic Product (GDP) and inflationary data released on Thursday and Friday, you can bet your bottom dollar all eyes were on the world's largest economy by the end of the week. GDP, the broadest measurement of the health of an economy showed quarterly growth of 2.8%, above expectations of 2% and way ahead of the 1.4% reading for the first quarter of 2024.

Consumer spending, which accounts for more than two-thirds of the US economy, increased by 2.3%, rebounding after slowing to a 1.5% pace for the first quarter. Spending was driven by increased outlays on services such as healthcare, housing and utilities as well as recreation. Consumers also boosted outlays on goods, including motor vehicles and parts, recreational goods and vehicles, furnishings and durable household equipment as well as energy products.

Coming in dead on the money, the Core PCE Price Index, reportedly the US Fed's favoured gauge of inflation, showed a rise of 0.2%, much as forecast. Consumer spending, which accounts for more than two-thirds of U.S. economic activity, increased 0.3% last month after rising 0.4% in May, the report also showed. After the news, futures markets made it clear what they thought, showing an almost 100% chance of a rate cut in September. A penny for the thoughts of the Fed officials who meet next week, with the argument for a cut soon making more and more *cents*…

This coming week

With the Olympics in full swing by the beginning of next week it won't be just the athletes in Paris going for gold, as a host of podium worthy economic data should capture the imagination of investors.

A week in which a host of central banks are poised on the starting line but shouldn't travel too far in terms of rate movements will make for an important time for those watching the markets, as the Bank of Japan (BoJ), US Federal Reserve and the Bank of England (BoE) hold press conferences to announce their latest views on base rates.

Wednesday is predicted to see the BoJ hold fire on adjusting its borrowing costs but to unveil details of a quantitative tightening plan aimed at reducing its holdings of government bonds. Given the size of its balance sheet and large presence in the market, the move will be a massive undertaking with various factors for policymakers and investors to consider. While a wide range of views has surfaced, the broad consensus centres on the BoJ gradually reducing its monthly purchases of government bonds to 3 trillion yen, halving from its current pace of 6 trillion yen.

With neither central bank potentially looking to raise rates next week, when listening to both the Federal Reserve and Bank of England's press conferences, investors may have to settle for the silver medal of focussing on the forward guidance, with both expected to clear the path for a September rate cut. Both press conferences could have an amplified effect on market volatility however, especially in the currency markets, as traders scrutinise their words for any hints of future rate policy.

On the economic data front, the data that should really have a ring to it this week will be US non-Farm Payroll data, released on Friday. Often considered one of the Fed's favoured pieces of information when determining their next rate move, we should expect heightened market volatility come the end of the week during its release. The employment data itself will be accompanied by Average Hourly Earnings, allowing us to gauge future inflation expectations as the more consumers earn, the more they tend to spend. It all combines to be a vital piece of data for the Federal Reserve and should take on added significance as the central bank mulls a September cut.

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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.