Article MARKET COMMENTARY

Market round-up: 29 July - 02 August

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

Author

Thomas Watts

Investment Analyst

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This week just ended

With the Summer Olympics getting into full swing, it seems that both central banks and investors took their cues from several events of the first week of competition, in what was a gold medal winning week for the sheer volume of financial news.

It was the US Federal Reserve and the Bank of England (BoE) that were as synchronized as a couple of 10m platform divers this week, impressing the judges with the Fed paving the way to cut rates next month and the BoE choosing to cut rates for the first time since March 2020 this week. First out of the blocks was the Federal Reserve on Wednesday night, with Chair, Jerome Powell, indicating that interest rates could be cut as soon as September if the U.S. economy follows its expected path. Pushing the message further, in his post-meeting press conference, Powell noted that price pressures were now easing broadly in the US economy in what he called "quality" disinflation.news.

"If we were to see inflation moving down ... more or less in line with expectations, growth remains reasonably strong, and the labour market remains consistent with current conditions, then I think a rate cut could be on the table at the September meeting," he signalled.

With a rate cut for next month now 100% priced in, global markets, much like a horse in the dressage, went from a trot to a full-on gallop, registering their biggest daily gain in over five months. The yield on U.S. 10-year Treasuries also fell 9.6 basis points to 4.045%, from 4.141%, its biggest daily drop in two weeks.

Thursday saw those on Threadneedle Street pivot like a gymnast on their floor routine. Although not quite *tumbling*, borrowing costs were cut by 0.25% to 5% as a group of three committee members, led by the Governor of the BoE, Andrew Bailey, switched their vote from hold to cut, making it a 5-4 notion in favour. Striking a more cautious tone, Bailey said "We need to make sure make sure inflation stays low, and be careful not to cut interest rates too quickly or by too much" after the initial announcement.

It The BoE expects headline inflation to rise to 2.75% in the final quarter of the year, from its current 2% level, as the effect of last year's steep falls in energy prices fades, before returning and staying on track towards its 2% target in early 2026.

Swimming against the tide of central bank rate cuts this week was the Bank of Japan (BoJ), who raised interest rates to levels unseen in 15 years, whilst unveiling a detailed plan to slow its massive bond buying, taking another step towards phasing out a decade of huge stimulus. Raising rates to 0.25%, BoJ Governor Kazuo Ueda did not rule out another hike this year and stressed the bank's readiness to keep raising borrowing costs to levels deemed acceptable to combat rising inflation.

As the finish line came into view for the week, US Non-Farm Payrolls was the final fence to jump for investors, acting as one of the most influential pieces of data the Fed looks at when assessing the strength of the economy. The data showed that 114,000 Americans entered the workforce over the last month, well below the 176,000 forecast, with unemployment now creeping up to 4.3%, higher than the expected level of 4.1% Average hourly earnings also came in a little lower than anticipated, showing 0.2% versus predictions of 0.3%.

It is worth mentioning that Hurricane Beryl, which knocked out power in Texas and Louisiana during the week the survey took place, likely contributed towards the disappointing data. However, there is little doubt that Friday’s weak data portrays a slowing labour market, keeping the Fed’s plans to cut rates in September very much *on track*…

This coming week

The first full week of August often ushers in a quieter period for markets, with many of those who have been dreaming of their summer holidays throughout the gloomy British winter (and some of summer), finally being able to pack their bags and jet off.

With this in mind, where better to start the week for economic data releases than on the continent, with all major European economies, including the UK, releasing their Services sector Purchasing Manager

Index (PMI) figures on Monday. PMI data is so useful for economists as it acts as a leading indicator of economic health with businesses reacting quickly to market conditions and their purchasing managers hold perhaps the most current and relevant insight into the company's view of the economy.

Staying in Europe, Monday also sees the results released from the most recent investor confidence survey. 2,800 investors and analysts asked to respond and rate the relative 6-month economic outlook for the Eurozone, an important piece of data as investors and analysts are highly informed by virtue of their job, and changes in their sentiment can be an early signal of future economic activity.

Not that anyone really wants to come home from their holidays, but homes will be the talk of domestic markets towards the middle of the week, as Halifax release its House Price Index data. The figures will measure the change of value for properties on its books at an interesting time for those looking to buy or sell a house, only adding to the weight of the announcement.

The coming week should be wrapped up with US unemployment claims, forming an important part of the overall labour landscape, helping us to understand just how difficult the current environment is when looking for a new role. The data has taken on added significance over recent months as the US Federal Reserve becomes increasingly data dependant, focussing on labour market strength when formulating future rate policy.

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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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