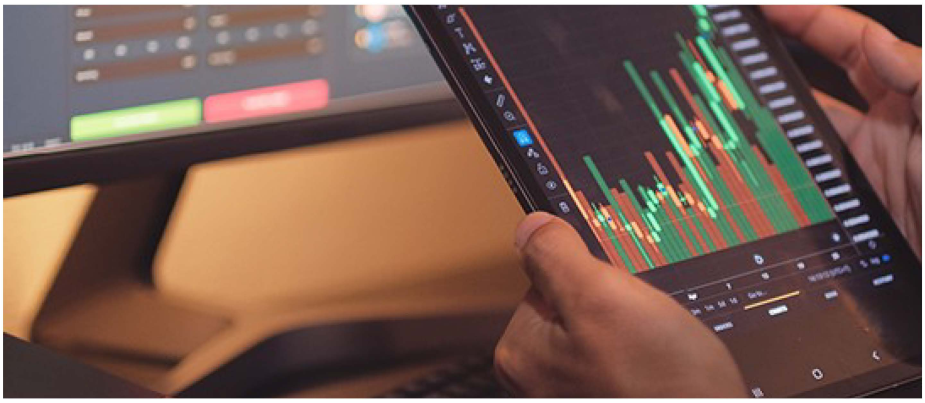
Home market roundup



Article MARKET COMMENTARY

Market round-up: 02 - 06 September

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

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Duration: 4 Mins Date: 06 Sept 2024

This week just ended

'*Loss is nothing else but change*' Marcus Aurelius

Often considered one of Rome's most notable rulers, the philosopher and emperor, Marcus Aurelius is widely regarded as a model stoic and the ideal representative of virtue by scholars.

Whilst Aurelius has a quite the legacy, quotes from the Roman Emperor aren't necessarily the first port of call for investors when trying to understand certain events. However, the words of one of the last great rulers of the Pax Romana can indeed help us to gauge the fortunes of the one of the stock market's biggest darlings this week.

Tuesday saw shares of AI heavyweight, Nvidia, tumble 9.5% in the largest ever single day decline in market value for a U.S. company. Largely the result of investors softening their optimism about artificial intelligence during a broad market selloff, the result saw a total of $279 billion wiped of market capitalisation from the microchip behemoth (the price of its share multiplied by the amount of shares in issue) in just a few hours. The fall is now the largest recorded since Facebook owner, Meta lost $230 billion from its value during February 2022.

At its July record high close, Nvidia had almost tripled in 2024 alone but had suffered a confluence of factors, including a relatively soft earnings announcement last week and general worries over global growth as a whole. With the tech heavy Nasdaq plummeting 3.3% alone on Tuesday, our man Marcus can again offer some words of wisdom.

'*You have power over your mind, not outside events*'

Never have truer words been spoken when resisting knee jerk reactions as an investor. Indeed, the following days saw selling moderate as the market focussed on the fundamentals, aided by upbeat US Purchasing Manager Index readings for the dominant Services sector and also stronger than expected UK housing data.

House prices in the UK reached a two-year high in August, helped by the recent interest rate cut from the Bank of England, increasing confidence among homebuyers, Halifax, the UK's largest mortgage lender said on Friday. The data showed that prices last month were up 4.3% compared to last year, taking the average cost of a UK property to £292,505. On a monthly basis, house prices rose by 0.3% in August, compared to 0.9% in July. Sounding a note of caution, the mortgage lender did warn this was primarily the result of the weakness of property prices a year ago, rather than particular strength now.

It might surprise you, but Marcus Aurelius was not predestined for his job on the imperial throne. Although his father, Marcus Annius Verus, was from a noble Roman lineage and could boast of senators and consuls among his ancestors, Marcus was adopted by the ruling Hadrian who saw leadership qualities in him from a young age. Now, whilst we can't all boast of ascending the career ladder quite so early, getting a job was very much the theme of the end of the week as the US Bureau of Labour Statistics released its Non-Farm Payroll data on Friday.

The data proved to be a mixed bag, with only 142,000 Americans joining the workforce this week, below expectations of 164,000. The good news however was that the unemployment rate slipped back to 4.2% this month, down from 4.3% previously. Interestingly, the markets moved to price in a 55% chance that the Federal Reserve will commence its monetary easing with an outsized 0.5% cut in September instead of a more usual 0.25% reduction. The probability increased from 43% before the payroll report was published. As they said in ancient Rome, it could be '*Acta non Verba*' from the Fed that will drive markets for the foreseeable future now…

This coming week

As the coming week rolls around, yet more sayings from the Roman Empire somehow seem apt, certainly '*Carpe Diem*' comes to mind on Monday. Translating roughly to '*Seize the day*' in Latin, the old adage will certainly be one followed by economists early in the day as a host of Chinese inflation data is released early in the morning.

Releasing both its Producer Price Index (PPI) and Consumer Price Index (CPI) numbers simultaneously, the data focussing on the prices consumers are paying should steal the headlines. Predicted to rise 0.7% on a monthly basis, it will be interesting to see if as food inflation, as widely expected, finally turns positive for the first time in 14 months after coming in flat last month. Non-food inflation on the other hand could remain an overhang amid heightened price competition.

Attention will then switch to the US, where we have more CPI data in store. With the US Federal Reserve having abstained from cutting rates last month, markets are currently pricing in over 1% of cuts for the US for the remainder of the year. With only 3 meetings left, this implies that the Fed will either have to cut at least once by 0.5% or introduce an emergency cut out of the sync with their meetings. With this in mind, next week's inflation reading will also be vitally important in gauging just what the task ahead for the Fed will be.

All roads lead to Rome as they say, but it will be Brussels this week that will draw all the focus in Europe as the European Central Bank (ECB) looks set to cut interest by a further 0.25% on Thursday. With the last week's inflation data coming in at 2.2%, a rate cut at the next ECB meeting has almost become a done deal. As current headline inflation is closing in on 2% and longer-term inflation forecasts remain stable at around 2%, the ECB has enough reasons to further reduce borrowing costs in the future.

With markets expecting a rate cut, it will be the forward guidance from the ECB that could really cause volatility on European bourses. The announcement will be accompanied by a press conference by ECB President, Christine Lagarde, who will give the central bank's current views on the economy and also drop hints as to future rate policy, allowing investors to make an educated guess as what to expect next.

The information in this blog or any response to comments should not be regarded as financial advice. If you are unsure of any of the terminology used, you should seek financial advice. Remember that the value of investments can go down as well as up, and could be worth less than what was paid in. The information is based on our understanding as at 06 September 2024.

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