Article MARKET COMMENTARY

Market round-up: 16 - 20 September

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

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This week just ended

Written by Cat Stevens in 1967 and performed not only by the English singer-songwriter but also PP Arnold, Sheryl Crow and perhaps most famously, Rod Stewart, *The First Cut Is the Deepest* is a song that has broken hearts the world over. Sung from the point of view of a person wondering how and even if it is possible to love again after their first love was lost, "The first cut" of the title referring to one's first love moving on.

Whilst it remains a mystery if Jay Powell and those at the US Federal Reserve are big fans of 1960's soul or even Rod Stewart, the central bank's first cut to interest rates (and possibly its deepest) aptly came this week, without a broken heart from investors in sight.

Although a rate cut was fully priced in by financial markets, the debate as to whether it would be 0.25% or a more significant 0.5% reduction has raged on recently, with investors still sat on the fence right up to the announcement on Wednesday evening. This time, another Rod Stewart song came to mind with US inflation steadily decreasing and the economy remaining robust, the Fed were clearly given a *Reason to Believe* that a 0.5% cut was pertinent, with the bank's Chair, Jay Powell remarking that "The logic of this both from an economic standpoint and from a risk management standpoint was clear."

The Fed also projected rates would fall by another 0.5% by the end of this year and then by a full 1% next year, cheering investor sentiment in the process. Broader US benchmarks hit a record high overnight along with bourses in both Australia and Indonesia. On the commodities market, gold also shot to a record high just shy of $2,600 an ounce, before easing back slightly.

Another central banker who must have had Rod Stewart's greatest hits on in the background this week must have been our own Bank of England (BoE) Governor, Andrew Bailey. *I Don't Want to Talk About It* was very much the message from Threadneedle Street when asked about a rate cut this week, with the bank standing firm for the time being. With the bank's committee voting 8-1 in favour of maintaining borrowing costs at 5%, commenting that "It's vital that inflation stays low, so we need to be careful not to cut too fast or by too much." On the news, sterling briefly jumped above $1.33 to its highest since March 2022.

The announcement to hold rates came a day after domestic inflation numbers released for these shores on Wednesday. Headline price rises remained at 2.2% for August on an annual basis but Services inflation, an indicator of domestic price pressures, rose to 5.6% from 5.2% in July, ahead of forecasts of 5.5%. One keyfactor behind the rise was a 22.2% jump in air fares between July and

August. Unsurprisingly, plane tickets usually rise during the summer but the Office for National Statistics still said the jump was the second largest since records began in 2001.

Separate data also showed manufacturers' costs for raw materials and energy fell by 1.2% in annual terms in August, a bigger drop than expected by the economists had expected, with factory selling prices rising by the least since January.

Friday saw the last key piece of domestic data released during what was an eventful week, in the form of retail sales. Data showed that sales rose by a stronger than expected 1% in August, much higher than 0.3% expected, with July's figures also revised upwards. The numbers chime with High Street Behemoth, Next's, results released earlier this week that showed strong sales during the summer months, reflecting an improvement in the weather. As Rod Stewart will also tell you in one of his seemingly many economics-based maxim hits, it's all about the *Handbags and Gladrags* when it comes to gauging the market…

This coming week

With the presence of Autumn now firmly settling in, the last full week of September brings with it enough data to take many economist's minds off the impending darker evenings and grey skies.

Straight from the off, we will see a shower of Purchasing Manager Index (PMI) readings from all over the world on Monday morning, with all major European economies, including the UK and followed by the US, releasing both their Services and Manufacturing sector figures. 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.

In what should be a very American focussed week, we should see the final revision of US Gross Domestic Product, the broadest measure of how an economy is faring. We will also a good leading economic indicator in the form of US Consumer Confidence readings. Nearly all economic activity starts with consumer spending and so how the average person on the street is feeling is vitally important. The data derives from a survey of 3,000 households, all asked to rate the relative level of current and future economic conditions including labour availability, business conditions and their overall economic situation.

Staying in the US, the end of the week should be wrapped up with 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.

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Risk warning

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