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Market round-up: 28 October - 01 November

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

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This week just ended

Weighing 2-3-kilograms, constructed of slow-grown pine and lined with heavy lead and black satin, interestingly ensuring that the box sinks when thrown overboard in the event of capture, the famous red despatch box made its appearance this week, now in the hands of Chancellor, Rachel Reeves, delivering her maiden budget.

In a tradition that goes back all the way to 1860, when William Gladstone stood on the steps of no.11 as Chancellor, the admittedly newer, iconic red box, made the majority of the headlines once more.

Unveiling a debut budget plan that included £40 billion worth of tax rises, the largest in 30 years, which will increase the UK tax take to an all-time high of 38% of Gross Domestic product by the end of the decade, the new Chancellor certainly seemed to want to get a handle on both the box and public finances.

Arguably one of the biggest measures and what is expected to be a big revenue raiser for the government, was an increase in employer national insurance contributions, expected to raise up to £25bn for the Treasury's coffers. However, such tax rises will be more than offset by the additional spending announced, such that the Office for Budget Responsibility (OBR) has nudged up its growth forecast for next year from 1.9% to 2.0%.

Reeves also pledged to cut the duty on draft alcohol and abolished the controversial "non-dom" tax regime. One other surprise move was a freeze on income tax and National Insurance thresholds for workers, seen as a stealth tax by many.

The market reaction was stark, with the yield on 10-year U.K. government bonds rising to its highest level since Labour took power at the start of July.

UK mid cap stocks enjoyed a lift as market players deemed the government's first UK budget to be less punitive on businesses than many had previously feared. The Housebuilders sub-index surged 3.5% on the news, set for its biggest one-day rise since May.

Pub stocks also enjoyed a lift after Reeves announced a cut to duties on alcoholic drinks in pubs. Listed pub chains and brewers such as Wetherspoons, Marstons and Mitchells & Butlers were all up 3.7%-7.2% shortly after the announcement.

There are many theories as to why the despatch box used is red, with the most creditable being that the practice began in the late 16th century, when Queen Elizabeth I's representative, Francis Throckmorton, presented the Spanish ambassador, Bernardino de Mendoza, with a specially constructed red briefcase filled with black puddings.

Since then, the colour has become synonymous with government briefcases full of important documents, although investors saw their fair share of red this week as markets struggled for direction as important economic data releases, mixed earnings reports and an upcoming US presidential election all weighed. Thursday saw Core Personal Consumption numbers released from the US, reportedly the Federal Reserve's favoured way of gauging inflation. The numbers showed a seasonally adjusted 0.2% increase for the month, with the 12-month inflation rate now at 2.1%, fairly in line with estimates.

Though the headline number showed the central bank nearing its 2% goal, the inflation rate was at 2.7% if we strip out more volatile sectors such as food and energy, the increase was 0.3% on a monthly basis. The move in inflation was tilted toward services prices, which increased 0.3%, while goods prices decreased 0.1%, the fourth outright deflation figure in the past five months for the category. Housing prices eased off their pace, rising 0.3% and energy goods and services fell 2%.

Whilst the name George Ward Hunt may have been forgotten in the annals of time, his time as Chancellor and delivery of the Budget are particularly infamous. Arriving at the House of Commons in 1869, he opened the box ready to give his address, only to realise he had left the speech back at home. Whilst a connection cannot be proven, he lasted just six months in the job before losing his role.

The end of the week carried on the theme of unemployment, with several pieces of US data giving us a more comprehensive view of the labour landscape there. The real headline came on Friday afternoon as just 12,000 Americans were shown to have joined the labour market over the previous month, far less than the 106,000 predicted. Despite this, wages did tick up slightly more than anticipated, rising by 0.4% rather than 0.3%. The unemployment rate also held firm from last month, staying at 4.1%.

This coming week

After what seems to have been years of electioneering between the two main parties, the US should finally have selected a new president by the end of the coming week, with Americans heading to the polls on Tuesday. Whilst market moves over the coming days should be dictated by who inherits the keys to the White House, there is a multitude of economic data that could set the scene for the longer period, especially as the Bank of England (BoE) and the Federal Reserve are also expected to make rate announcements with the former cutting by a further 0.25%.

From the budget announcement from no.11 Downing Street last week, across London to Threadneedle Street this week, the important domestic news keeps flowing as the BoE gears up to cut borrowing costs to below 5%. Speaking at a meeting of the Institute of International Finance last week, BoE Governor, Andrew Bailey commented that "disinflation" had actually taken place 'faster than we expected it to', but added that the economy still needs to see a further drop in services inflation, despite recent progress.

With this in mind, markets are expecting a 0.25% rate cut during the coming week, taking the base rate down to 4.75%. Whilst some investors and economists then expect another cut to follow shortly afterwards in December, a mildly inflationary Budget from the government has muddied the water slightly.

With a move being largely priced in by markets, it will be the bank's forward guidance that could really move markets, as they give their outlook for the economy and future rate policy.

Towards the end of the week, we head to Wall Street next, where the BoE's American peers, the Federal Reserve, will also give their views on the economy. Although also expected to move on interest rates during this upcoming meeting, possibly cutting by 0.25%, much like here in the UK, the bank's future guidance will provide the main talking points for economists going forward.

Whilst the fallout from the US elections could quite literally trump whatever goes on in the markets next week, the mixture of central bankers and politics could well cause fireworks for investors, aptly in a week that contains Bonfire Night.

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