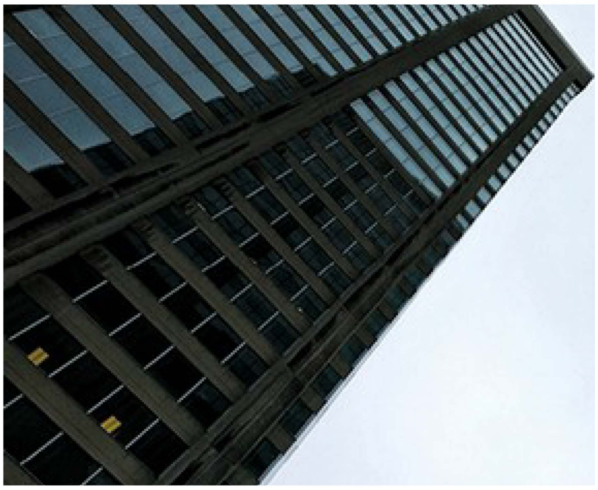

Article MARKET COMMENTARY

Market round-up: 6 – 10 January

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

Author

Thomas Watts

Senior Investment Analyst

Duration: 4 Mins Date: 10 Jan 2025

This week just ended

A new year, a new month and new week in financial markets saw a difficult start for most major asset classes as the relatively optimistic end to 2024 began to fizzle out somewhat.

Perhaps the change in optimism investors felt around the turn of the year takes inspiration from the Romans, who interestingly named January after their god of beginnings, transition, time and doorways, Janus. Latin for 'arched passage or doorway', Janus is often depicted with two faces, one looking forwards, the other backwards, seeing out the old year, whilst looking forward to what is to come.

Looking to the future, and indeed doors have been major themes of the past week, as investors increasingly price out the chance of rate rises from the US Federal Reserve during 2025. Having tempered expectations back before Christmas to just two 0.25% cuts for the coming year, the central bank released minutes from their previous meeting this week, seemingly leaving the door less and less ajar for a move.

Released on Wednesday, the minutes showed that officials were concerned President-elect Donald Trump's proposed tariffs and immigration policies might prolong the bank's fight against inflation. Officials noted that 'recent higher-than-expected readings on inflation and the potential changes in trade and immigration policy suggested the process could take longer than previously anticipated.' After the update, markets are now fully pricing in just one 0.25% rate cut in 2025 and see around a 60% chance of a second in the US.

It was also a jamb-packed week on domestic shore as well, as worries over potential government borrowing plans led 10-year Gilt yields to their highest since October 2008, while 30-year yields hit a new 26-year high in a move that will add pressure to Westminster's finances. Framing such news as unwelcome, Sterling fell to a year-long low of £1.232, with the more domestically orientated mid-cap market falling nearly 2% on both Tuesday and Wednesday.

It wasn’t just in the UK that government bond yields started to drift up, as concerns over rising inflation, reduced chances of interest rate cuts, uncertainty over how U.S. president-elect Donald Trump will conduct foreign or economic policy and the prospect of trillions of dollars in extra bond sales also saw fixed income markets become unhinged around the world.

On the economic data front, the end of the week brought with it the all-important US Non-Farm Payroll numbers, a crucial indictor as to the health of the US economy. The data showed that the US labour landscape is still very strong, seeing 256,000 Americans join the workforce this month, far more than the 164,000 anticipated. The unemployment rate also dropped to 4.1% from 4,2% last month, signalling all seems to be fine with the US economy, further denting hopes of further rate cuts from the Fed in the coming year.

On the news, the US dollar further strengthened against a basket of developed currencies, with Sterling falling further to $1.22, whilst bond yields continued their way higher, a story that may ring a bell for anyone following markets over the past month or so.

This coming week

As 2025 really starts to come of age, the beginning of the week should start on a subdued note as the Japanese market closes for its own Coming of Age Festival, with the markets in the country closing for the ceremony.

Despite this, the coming week really grows into itself by Tuesday, especially in Japan, as the government releases its Economy Watcher Survey, the results of about 2,050 workers, all asked to rate the relative level of current economic conditions they are witnessing. The data is so respected due to its breadth and accuracy and should take on added importance as we approach nearly a year of the survey showing in confidence, with the last positive score having come way back in March 2024.

Wednesday should prove to be a tale of two CPIs (Consumer Price Index), as the UK and US both release their latest inflation readings. With worries over President-elect Donald Trump's incoming tariffs and the potentially inflationary consequences of Labour's new Budget, both readings could well set the tone for the coming weeks as central banks look to dial back their rate cutting projections for 2025.

Another key metric will be released for the domestic economy on Thursday, as the Office for National Statistics makes public their Gross Domestic Product reading for the UK. Acting as the broadest measure of economic activity and the primary gauge of the economy's health, measuring the change in the total value of all goods and services produced by the economy. With the government struggling to spur any growth during the first months of their administration, both those in the City of Westminster and City of London will be hoping for some good news to get 2025 off on the right foot.

The week should end not so much on a cliffhanger, but a coat hanger as both the UK and US synchronise once again to release their retail sales figures on the same day. Acting as the primary gauge of consumer spending, the numbers should give us an idea of how both the high street and main street are faring.

abrdn Financial Planning and Advice Ltd is registered in England (01447544) at 280 Bishopsgate, London EC2M 4AG and authorised and regulated by the Financial Conduct Authority.

Back to top

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.