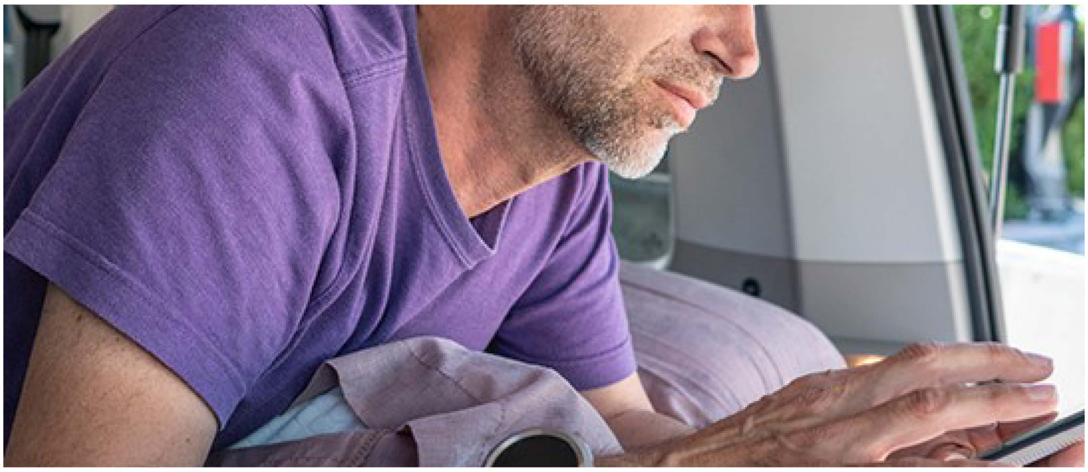
Home Market round-up



Article MARKET COMMENTARY

Market round-up: 13 – 17 January

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

Author

Thomas Watts

Senior Investment Analyst

Duration: 5 Mins Date: 17 Jan 2025

This week just ended

Originally written in Spanish during 1934 with the title *Cuando vuelva a tu lado* (When I Return to Your Side), many will know the later English language adaptation What a Diff'rence a Day Makes, popularised by Dinah Washington in 1959.

Since covered by artists ranging from Rod Stewart to Barry Manilow, the melody and lyrics are unmistakable and could actually teach us a thing or two about market swings in market sentiment.

With this in mind, it is not Dinah's namesake we head to first, but New York, where after six consecutive sessions of losses, investors performed a sharp U-turn on Wednesday.

Indeed, what a difference a day can make, after the previous week's strong labour data, many investors had begun to price out any form of rate cut from the Federal Reserve by Monday, forcing bond yields higher, and yet, with slightly weaker than anticipated inflation data reported, all that changed.

After four consecutive 0.3% monthly readings, December's core inflation figure posted an improved slower 0.2%, giving some hope that price rises were beginning to be reined in. On the back of the news, whilst no rate cut is expected at the Fed's January policy meeting, markets, have now increased the chances of a rate reduction in June. Market moves also reflected this, with US markets in particular rallying hard, the US dollar also slipped against a basket of currencies, with Treasury yields falling in lockstep.

Twenty-four little hours as the song goes with Wednesday also ushering in lower-than-expected inflation domestic shores, helping the UK blue chip index reach all-time highs during the second half of the week. The annual rate of inflation edged down to 2.5% in December from 2.6% in November, the Office for National Statistics said, in contrast to economists' expectations for it to remain unchanged. The data allowed the market to start pricing in a 84% chance the Bank of England (BoE) would cut rates by 0.25% during its next meeting, with two such moves now fully priced in for 2025, up from around a 60% chance before the inflation data was released, also leading to a fall in Gilt yields.

The data also offered much needed respite for under-fire Chancellor Rachel Reeves, with the likelihood of slow rate cuts having contributed to a jump in borrowing costs that has made life a lot more difficult for the government, possibly requiring a cut to public spending.

The good news for those hoping for more rate cuts kept on coming, with US Fed Governor, Christopher Waller, delivering a dovish assessment of the US economy. Inflation 'is getting close to what our 2% inflation target would be," Waller commented in an interview on Thursday, "If we continue getting numbers like this, it is reasonable to think rate cuts could happen in the first half of the year ... I don't think March could be completely ruled out.'

His words seemed to turbocharge markets, continuing their rally during the second half of the week as investors shifted toward a view of two 0.25% rate cuts as now more likely for the US, with a good chance the first could come as early as May.

Heading for their best weekly rise since last September, European shares rose further on Friday, with the UK and German indices hitting record highs, this time spurred on by news from China. Although the outlook for the year remains uncertain for China as incoming US President Donald Trump, plans various tariffs targeted at the country, the Chinese economy grew 5%, matching the government's target.

Further data released towards the end of the week from China also suggested that both industrial production and retail sales figures both came in above estimates, fuelling the feel-good factor as investors mimicked the 1934 Spanish incarnation of Washington's famous song, this time rushing to return to the side of what have been some pretty unloved markets of late.

This coming week

With a slightly subdued start to the coming week on the horizon, due to US markets closing in observance of Martin Luther King Jr Day, the job will fall to the UK to take the limelight early in the week.

Indeed, it will be all about jobs, as the Office for National Statistics (ONS) releases a raft of domestic labour data. With the UK labour market having proven remarkably resilient in the face of rising rates, Tuesday will give us the opportunity to check one facet of the employment landscape for weakness, the Unemployment Claimant Count. Measuring the change in the number of people claiming unemployment related benefits during the previous month, the figures are crucial in understanding the strength of the overall market as the figures contribute strongly to the unemployment picture.

We will also be able to check not only on how much of the population is unemployed, but also how much those in work are being paid. With the ONS also releasing Average Earnings Index data to give us a more comprehensive view of the domestic labour landscape.

Employment will be the watch word for most of the week as attentions turns to the US on Thursday to check up on their own Unemployment Claims figures. Although the data is generally viewed as a lagging indicator, the number of unemployed people is an important signal of overall economic health because consumer spending is highly correlated with labour market conditions, therefore indirectly affecting inflation.

The end of the week will see economists have their jobs cut out following all the economic data releases as firstly the Bank of Japan (BoJ) holds a press conference where they are widely anticipated to raise rates. For several weeks now, remarks from BoJ officials, has pointed to persistent price pressure and strong wage growth, all helping boost market confidence that a rate rise is on the way, with markets now pricing in an 80% chance of chance of a hike next week.

The end of the week will also be characterised by a host of Purchasing Manager readings. Covering both the Manufacturing and Services sectors for Germany, France, an overall European composite, the UK and US. The readings will give us an invaluable sense of the global economy at a company level as businesses will be asked to rate the relative level of business conditions including employment, production, new orders, prices, supplier deliveries and inventories.

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 17 January 2025.

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.