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Article MARKET COMMENTARY

Market round-up: 17-21 February

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

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This week just ended

Usually when we think of frozen assets, it is generally viewed as a negative term, conjuring up images of parts of a business that cannot be accessed or disposed of by their owners, such as bank accounts or property. And yet this week, the whole concept was turned on its head by Unilever, one of the world's largest consumer

goods companies, who announced it would be spinning off its ice cream unit and floating it on the Dutch stock exchange.

Home to popular brands such as Magnum, Carte d'Or and Ben & Jerry's, the ice cream division accounts for about 16% of Unilever's global sales and acts as another piece of bad news for the much-maligned London Stock Exchange, who missed out on the listing.

Keeping within the spirit of all things ice cream, investors had to wait until Tuesday for the first major scoop of the week, as data showed the domestic labour market is highlighting no real signs of freezing. Showing that private sector pay excluding bonuses, the Bank of England's (BoE) favoured gauge of inflationary pressures, rose by 6.2% compared with the same period a year earlier, the numbers have definitely given the central bank food for thought.

Indeed, BoE Chief Economist Huw Pill said last week that he believed the main problem weighing on the domestic economy was one of supply, including a shortage of workers, which has helped push up wages.

For the plethora of domestic data we received this week, the real cherry on top came in the form of Consumer Price Index data, the broadest form of measuring inflation for an economy. Coming in at 3% compared to expectations of 2.8%, to levels not seen for ten months. The increase in January was driven largely by a smaller-than-usual drop in air fares, usually considered a volatile component of the overall reading, that had helped push inflation down during December.

Services prices, which are closely watched by the BoE, rose sharply to 5% from 4.4% last month, but by less than the 5.2% rate anticipated.

Just like a bowl of ice cream in July, European markets enjoyed their day in the sun this week, rising to record levels on both Monday and Tuesday. Led by the Defence and Aerospace sub-sector, which hit an all-time high, investors sort out military exposed companies as the region's political leaders called for an emergency summit on the Ukraine war amid growing US calls to boost military spending for security.

From busy dairies to busy diaries, at least for various members of the European Central Bank (ECB) this week as a number of officials gave their views on the continent's future rate trajectory.

ECB board member Isabel Schnabel, one of the most vocal of those not to cut rates, argued that it was already time to debate a pause because the current base rate of 2.75% is no longer restrictive on the economy.

"We are getting closer to the point where we may have to pause or halt our rate cuts…I'm not saying that we're there yet. But we have to start the discussion."

As well as a Banana Split, a split also seems to be forming in European corridors of power, with Fabio Panetta, Italy's central bank chief, this week arguing that growth is weaker than feared and the consumer-led recovery is not materialising. He argued that monetary policy is still restrictive, which is increasingly unnecessary given that inflation is nearly on target and domestic demand is weak.

Our own domestic markets may have come in for a frosty reception of late, but that hasn't stopped the blue-chip index hitting all time highs over the last few weeks. The week was wrapped up with positive retail sales figures released as British retailers reported a strong start to 2025 after a disappointing 2024. The Office for National Statistics showed that not only did

sales rise in January for the first time since August and by much more than expected. The 1.7% month-on-month gain in sales volumes was bigger than forecasts for a 0.3% increase, predominantly driven by food shops, who reported a 5.6% rise for the month the month, the largest jump since March 2020.

However, some restraint should be exercised after most of Britain's major retailers, including Next and Marks & Spencer, have flagged a tougher year ahead as the government's National Insurance increases and their potential impact on prices and employment, filter through into the economy. Although this week's data could whip up a great deal of positive sentiment, a rocky road could still lie ahead for the retailers…

This coming week

It'll be a *guten morgen* to investors come Monday morning after Europe's largest economy heads to the polls to elect its new Chancellor. With Germany being such an important factor in both the economic and political space on the continent, the results could see increased volatility in markets as investors digest the results.

Keeping with the German theme, the ifo institute also releases its business climate figures for the country on Monday, detailing the results of a survey asking 9,000 German businesses to rate the relative level of current business conditions and expectations for the next 6 months. The data also acts as a leading indicator of economic health, with businesses historically reacting quickly to market conditions, so changes in their sentiment can be an early signal of future economic activity such as spending, hiring and investment.

A quieter week that usual wouldn't be the *wurst* thing for investors considering how busy with market events and and geopolitics the previous weeks have been. We do receive a smattering of US data releases throughout the week however, include Consumer

Confidence figures on Tuesday. Consumer confidence is vastly important when assessing the general health of an economy, with the majority of economic activity coming from the person on the street and their changing spending habits. Acting as an invaluable instrument in the economist's toolbox due to its sheer breath, the reading comes from a survey of about 3,000 households, asking respondents to rate the relative level of current and future economic conditions including labour availability, business conditions and overall economic situation. With a new man set to arrive in the White House in January the data should take on an added significance, as a close-run US election is bound to have affected consumer behaviour in some ways.

Staying with the US the week is 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 cover 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.

And that should be it for the week, as they say in Germany, *Alles hat ein Ende, nur die Wurst hat zwei…*

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