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Article MARKET COMMENTARY

Weekly round-up: 24 - 28 February

Tom Watts recaps the past week's events and looks ahead to the next.

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This week

With inflation having grabbed the majority of the headlines over the past few years, the actual way the reading is calculated has has been somewhat overlooked. The basket of over 700 goods and services that act as the measurement of price changes not only informs us of how inflation is behaving but also as a useful reflection of the changing habits and spending patterns of the domestic consumer.

Last years rejig to the basket saw vinyl LPs come back into the basket again after 16 years of consecutive sales increases, reaching their highest levels since 1990. Further good news was to come this week for those who enjoy the vinyl things in life as department store, John Lewis, announced it will now be selling a "carefully curated selection of old and modern classics" along with record players themselves for the first time in thirty years.

For economists this week however, much like a record player's needle, the week got into its groove straight away, as results from the weekend's German election made for easy listening on Monday. Sunday's results showed that centrist parties were on a path to forming a coalition as Germany's next Chancellor, Friedrich Merz, leader of the business-friendly CDU has the chance to negotiate with the centre-left Social Democrats, even though the party came third behind the far-right Alternative for Germany.

You would be hard pressed to find many German investors who weren't encouraged by the news, with the DAX up 0.62% on the news, whilst the more domestically mid-cap German market jumped 1.5%. Indeed. In a note from Swiss bank UBS, they remarked "The outcome that we got is very close to a best-case scenario. This should bring a business-minded government with a reform-oriented pro-growth agenda and some needed political stability to the EU."

Much like a John Lewis's latest wares, it seems the Bank of England (BoE) are also in a bit of a spin, this time when it comes to future interest rate policy. The beginning of the week also saw Monetary Policy Member, Swati Dhingra, comment that policymakers have not reached a consensus about how fast the central bank should cut interest rates, even though they all agreed to use the word "gradual".

"I know 'gradual' has been interpreted in the media as 0.25%. That's not actually what the committee has said," she remarked, backing up comments from Andrew Bailey, the bank's Governor, last week. "Consumption weakness is just not going away … and I think that's the reason that I have been much more on the side of wanting to reduce the level of (base rate) restriction." Whilst also commenting that she places less emphasis on recent stronger than expected wage growth data when making her decision.

Entering the B-side, the second half of the week had a distinctly US theme to it, with both Unemployment Claims and inflation data having the vinyl say for investor sentiment as we head into the weekend. Interestingly, data showed on Thursday that the US employment landscape may be beginning to falter as the number of Americans filing new applications for unemployment benefits increased more than expected last week. Initial claims for state unemployment benefits jumped 22,000 to 242,000 for the previous week, marginally higher than the 221,000 claims forecast.

However, if we scratch a little beneath the surface, the numbers are yet to show any impact from mass layoffs of federal government workers, most of whom were let go during the middle of February by billionaire Elon Musk's new Department of Government Efficiency (DOGE).

Aptly, the firing of tens of thousands of government workers as part of the scheme is now expected to go down in US history books as, much like what many consumers in the UK are still buying it seems, a new record…

Next week

Named after the Roman god of war, Mars, his month originally hailed not only the beginning of the season of warfare in ancient Rome but also the start of the year in general, with the Roman calendar originally starting in March until January and February were added later.

How apt it is then, that the month is ushered in during a period of increased worry over a burgeoning trade war between the US and many of its key trading partners.

With issues over US president, Donald Trump's, war of words and subsequent trade tariffs taking centre stage in his economic policy, we have seen companies in the US increasingly mention provisions made for any escalations tensions. Monday's Manufacturing Purchasing Manufacturing Index (PMI), asking American companies their view on the economy, could give us further clues as to how managers are feeling towards a more inward looking way of doing business.

PMIs act as a useful tool for economists in gauging business sentiment, as companies tend to react quickly to market conditions, with their purchasing managers hold perhaps the most current and relevant insight into the company's view of the economy.

Whilst March used to be the first month of the calendar before being demoted to number three, it will be number eleven that investors will be watching out for on Tuesday as Rachel Reeves dusts off the famous red dispatch box. After the fireworks of Autumn's budget, which announced £40bn of tax rises in various guises, any announcements this time around are bound to be less major.

However, whilst this Spring Statement may not be on the scale of October's event, it does give the Chancellor an opportunity to raise taxes and perhaps also tweak some of the more controversial Autumn Budget tax announcements which are proving to be unpopular. Nevertheless, the proposed spring statement could end up taking on a greater significance than currently intended, with many a Treasury spokesman refusing to rule out tax increases in the Spring, vaguely explaining that the Treasury would plan for all scenarios.

The second half of the week takes on a distinctly US employment theme, brought about by both US Job openings data followed by Non-Farm Payroll (NFP) figures. Both are important in their own way and together, help us build a comprehensive picture of how the employment landscape in the US is shaping up.

NFPs are highly regarded by the US Federal Reserve, we should expect heightened market volatility come the end of the week during its release. The data itself will be accompanied by Average Hourly Earnings, allowing us to gauge future inflation expectations as the more consumers earn, the more they tend to spend. It all combines to be a vital piece of data for the Federal Reserve and should take on added significance with the labour market recently showing few signs of weakness in the US.

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 28 February 2025.

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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.

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