Article MARKET COMMENTARY

Market round-up:
18 September - 22 September

Tom Watts recaps the week and takes a look ahead to next week.

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This week just ended

During a week in which the glitterati of the fashion world descended upon the catwalks of the capital for London Fashion Week, it seems that there is also a new trend emerging for central banks, as both the US Federal Reserve and the Bank of England (BoE) held rates steady, following on from the European Central Bank last week.

With both industries using models, just in slightly different ways... investor attention was firmly on the US Federal Reserve during Wednesday evening, as they briefed the markets on how they saw their battle with inflation panning out over the course of next year. Whilst the central bank did hold steady on rates, keeping them at a range of 5.25%-5%, Chair of the bank, Jay Powell, was quick to profess the dire economic consequences if they do not get inflation down to their 2% target in good order.

Reiterating its hawkish stance, hinting that we will still see one more 0.25% rate hike by the end of this year, with borrowing costs then being held higher for longer next year, those hoping for signs of an early rate cut were left with little Jouy. The Fed's updated quarterly projections now show rates falling by only 0.5% during 2024 compared to a full 1% of cuts anticipated at their June meeting.

Their projections also now show borrowing costs only falling to 5.1% by the end of 2024 and 3.9% by the end of 2025, with inflation projected to drop to 3.3% by the end of this year, to 2.5% next year and to 2.2% by the end of 2025. The Fed also now expects to get inflation back to its 2% target by 2026, which is far more fashionably late than some officials had thought possible. Interestingly, markets are still pricing in 0.6% next year bringing interest rates to about 4.8%, 0.3% lower than the fed are projecting.

The middle of the week also saw a surprise fall in headline inflation on domestic shores, dropping from 6.8% to 6.7% for August, against expectations of a rise to 7%. More encouragement was to come as core inflation, stripping up volatile sectors such as energy and food, fell to 6.2% from 6.9%, again well below forecasts of a rise to 6.8%. It seems the slowdown in inflation was driven by a drop in often volatile hotel prices and air fares, and by food prices rising less than a year ago. Such moves more than offset a jump in fuel prices and an increase in a tax on alcoholic drinks.

They say that trend is your friend and if everyone is doing it, join the fashion! Following in the ECB and Federal Reserve down the runway was the Bank of England, leaving rates unchanged on Thursday afternoon. Having been spurred on by some rather encouraging inflation data earlier in the week, the bank voted 5-4 to hold at 5.25%.

Coming in just a day after the end of London Fashion Week and one before the BoE was widely expected to increase its rates by another 0.25%, the data showed that the bank isn’t entirely clothes minded when it comes to rate hikes, and that they will be flexible when analysing new data put before them. It was no surprise that after the news, the more rate sensitive areas of the market that fared well, with property orientated stocks leading the way.

Much like the Federal Reserve, the BoE reiterated that rates could well go up again this year and any talks of a cut are extremely premature, commenting that "Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures."

Although the week does serve as the first time that the BoE haven’t raised rates since December 2021, there is a long way to go before central banks engineer a “soft landing”. History teaches us that raising rates to the correct level to quash inflation, whilst not inducing a recession, are a lot like Burberry’s latest autumn/winter collection of tighter sweaters, extremely difficult to pull off.

This coming week

With a busy week coming up, economists will turn their focus to the continent on Monday, or should that be *Montag,* as Germany is set to grab all the attention throughout the week.

Being the Eurozone’s largest economy, German data usually takes on added significance and so news on the nation’s import prices, retail sales and especially overall business climate should really make an impact. Focussing on the business climate numbers, the data is so important as it acts as a leading indicator of economic health, with businesses reacting quickly to market conditions and changes in their sentiment being an early signal of future economic activity such as spending, hiring and investment. With the survey results falling monthly since May, many economists will be hoping the worst has now passed.

Germany will again make the headlines on Thursday, with preliminary Consumer Price Index (CPI) numbers coming to the fore, the best proxy for measuring inflation not only in Germany but also as a clue for how prices are reacting on the continent as a whole.

Staying in Europe, we also have a bonanza of Spanish CPI on Thursday, accompanied by an interesting report from the European Central Bank (ECB). Releasing its Economics Bulletin, the bank will reveal the statistical data that their Governing Board evaluated when making the latest interest rate decision, providing detailed analysis of current and future economic conditions from the bank's viewpoint. The data should of course take on added significance with the ECB choosing to effectively end their rate hike cycle next week.

The week should end with a flurry of data from the US as the world’s largest economy releases its Gross Domestic Product numbers along with Unemployment Claim figures. With the US labour market still too robust for the Federal Reserve’s liking, the data could well set the tone for the coming weeks, as a data dependant central bank weighs up the possibility of another rate hike before the end of the year.

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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.