Article MARKET COMMENTARY

Market round-up: 11 December – 15 December

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

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This week just ended

The 1972 Stock Trader's Almanac, not a publication that will pique the interest of many outside the world of investments, or for that matter, within it. However, during what was admittedly a pretty innocuous year for markets, a groundbreaking discovery that shapes our understanding of market behaviour during this time of year was made.

The term “Santa Claus Rally” is now a well-accepted term in the industry, describing the phenomenon of markets outperforming during the run up to the big day, leaving many investors still at odds as to why it occurs. Several theories try to explain why it happens, some believe investor optimism fuelled by the Christmas spirit and the investing of end of year bonuses drives it. Others say it’s the time of year when institutional investors go on vacation, leaving the market to retail investors, who tend to be more bullish. Whatever the reasoning, it seems December 2023 will conform to type, with markets enjoying a particularly strong few weeks, driven by falling inflation and a belief that borrowing costs have finally peaked.

Acting as the “Santa Claus” this week was US Federal Reserve Governor, Jay Powell, delivering a present that investors have been hoping for most of the year, not only confirmation that the central bank will not be hiking anymore, but also that it will look to cut rates with a view to stimulating the economy possibly earlier than thought. In the central bank’s press conference on Wednesday evening, Powell was quick to comment that the Fed is "not likely" to hike further and that they are "very focused on not making the mistake of keeping rates too high for too long." Also noteworthy was that a near unanimous 17 of 19 bank officials who projected that the lending rates will be lower by the end of 2024.

While policymakers did not want to take another rate hike off the table, it is no longer the central bank's "base case," Powell added. The timing of rate cuts "is really the next question: that's what people are thinking about, and talking about," with a "general expectation" that a future meeting would feature such a discussion.

It was jingle all the way for investors after the news Dow Jones hit its first record closing high since January 2022, with the S&P 500 and Nasdaq rallying more than 1% each. The following day saw European markets wake up the news with the FTSE 100 also up over 1%. Domestic markets had also enjoyed a strong week as

Gross Domestic Product (GDP), released on Tuesday, showed that the economy had contracted quicker than estimated over the month, sleighing any question that the Bank of England's previous rate hikes were not having a tightening impact on domestic activity.

Indeed, those on Threadneedle Street did hold a press conference of their own on Thursday, declaring that rates would be held steady and for "an extended period of time". In what turned out to be more "Santa Pause" than Santa Claus, the bank's Monetary Policy Committee voted 6-3 to keep rates at a 15-year high, leaving sterling to jump by more than half a cent against the U.S. dollar, as investors pushed back expectations for a first rate cut to May from March.

It wasn't just the Bank of England that spoke on Thursday, the presents of the European Central Bank (ECB) was also sought out by investors during the afternoon. Mimicking its counterparts across the Channel, the ECB commented that rates would remain "at sufficiently restrictive levels for as long as necessary."

"Should we lower our guard? We asked ourselves that question. No. We absolutely should not lower our guard," Christine Lagarde said, noting that some components of inflation were "not budging."

"We did not discuss rate cuts at all," she said. "No discussion. No debate...Between hike and cut there is a whole plateau."

In a week where investors were given the full spectrum of dovish and hawkish comments, the only bird missing seemed to be a Partridge in a Pear Tree…'tis the season as they say!

This coming week

In what will be the last full working week before Christmas, the coming days should ensure that investors shouldn’t be able to wind down just yet, gorging themselves on a festive glut of economic data releases with all the trimmings.

First on the menu, we have trip to Germany, where a survey of the Eurozone’s largest economy should prove the perfect apertif. Measuring business climate conditions, the survey results are highly respected due to its large sample size (about 9,000 businesses) and historic correlation with German and wider Eurozone economic conditions. The data also acts as a leading indicator of economic health as businesses react quickly to market conditions, and changes in their sentiment can be an early signal of future economic activity such as spending, hiring and investment.

The real meat of the week’s market movements, especially on domestic shores, should be the Office for National Statistics’ release of UK Consumer Price Index (CPI) numbers. In a break from tradition for this time of year, investors won’t be hoping for a turkey when the numbers come out, looking for signs that inflation is continuing to fall further from last year’s highs.

Acting in conjunction with the data, Friday will see UK retail sales figures also made public. Although the numbers won’t include the important Christmas trading figures, it will be interesting to note the health of High Street spending leading up the period, especially after various buoyant updates from retail behemoths such as M&S and Next.

Somewhat resembling a Christmas cracker, being pulled this way and that over Christmas lunch, investor attention will go back and forth between Europe and the US next week, with the American Bureau of Economic analysis releasing its Core Personal

Consumption Price index numbers. Although quite the mouthful, the news is important for a variety of reasons and is held in high regard by analysts. Predicted to make quite the impact on the markets after its release on Friday, the data differs from normal inflation readings in that it only measures goods and services targeted towards and consumed by individuals. Adding even more importance to the figures is that they are reportedly the preferred piece of data for the US Federal Reserve, using it as their primary inflation measure.

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