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Market round-up: 15 January – 19 January

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

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Duration: 1 Min   Date: 19 Jan 2024

This week just ended

Backed up by a certain level of pseudoscience, the beginning of the week started with the much maligned "Blue Monday", the day often regarded as the most depressing of the year. The formula to calculate the date incorporates many factors; the freezing weather, consumer debt levels after a Christmas of spending, time since Christmas festivities, time since new year's resolutions have been broken, low motivational levels and the feeling of a need to act.

Whilst there is undoubtedly some truth behind the theory, the concept was invented by UK holiday company, Sky Travel, back in 2005, to lure consumers into wanting to book a trip to escape the gloom…

Usually falling on the third Monday of January and kicking off a week in which most markets ended in the red, the past 5 days have been colourful to say the least. Most investors have seen red in more ways than one since the start of 2024, with underperforming Chinese markets acting as the main culprit. Hopes of a swift bounce back largely fizzled out last year, leaving many investors touting the end of COVID restrictions as a catalyst, red faced, with weak consumer and business confidence, mounting local government debts and slowing global growth sharply weighing on jobs, activity, and investment.

The world's second largest economy also saw its Gross Domestic Product (GDP) data released during the middle of the week, still showing a somewhat patchy economic recovery. The Chinese economy grew 5.2% during October-December from a year earlier, data showed, quickening from 4.9% in the third quarter but missing forecasts of 5.3%. On a quarterly basis, however, GDP grew 1%, slowing from a revised 1.5% gain from the previous three months. On the news, Chinese stocks, already plumbing five-year lows, tumbled further into the red whilst stocks listed in Hong Kong endured their biggest fall in 15 months.

From red letter days to Fed letter days, the US central bank was also in focus during the early part of the week as Fed Governor Christopher Waller, told the press that they are "within striking distance" of a rate cut. However, he also struck a much more cautious tone, commenting that the central bank should proceed "methodically and carefully." Although various policymakers have repeated the message until they're blue in the face, markets were still predicting a strong chance of a rate cut in March, however after Waller's speech, the odds were cut markedly.

Helping to push back expectations of an early Fed move were stronger than expected US retail sales and claimant count data, with the American consumer reportedly still free-spending, against a strong employment backdrop.

Domestic investors went through a full spectrum of emotions this week as seemingly out of the blue, inflation came in higher than forecast. Expected to sink to 3.8% from last month's 3.9%, price rises jumped to 4% on an annual basis. A sharp rise in tobacco duty and a bigger impact from seasonal air fare increases were the main culprits, as the news saw UK markets hit a 7-week low. Sterling also strengthened, while interest rate bets implied a roughly 60% chance that the Bank of England would start to cut rates by mid-May, down from just over 80% the day before.

Highlighting the balancing act those on Threadneedle Street need to perform, the end of the week also saw weaker than expected retail sales, coming in at -3.2% monthly. Although expected to fall by just -0.5%, food sales dragged the reading further south, performing particularly poorly, the sector's steepest fall since May 2021 proved costly as early Christmas shopping led to slow December sales. Retail sales are likely to subtract 0.04% from domestic economic output in the fourth quarter and with the UK seemingly sliding into a mild recession, just how deep and for how long remains something of a grey area...

This coming week

As the sun rises on another (hopefully warmer) week, there is no better place to start a busy few days than in the Land of the Rising Sun, as Japan releases a slew of economic data for investor's to wake up to on Tuesday morning.

With bets that the Bank of Japan (BoJ) is likely to maintain its ultra-loose monetary stance, focus will be on any hints that Governor, Kazuo Ueda, drops about when the central bank will feel the need to boost interest rates out of negative territory in the future. While the BOJ does indeed have its eyes set on ending negative rates soon, markets are pricing in that the bank will wait until at least until its meeting during late April before committing. The bank will also deliver its outlook for the Japanese economy providing a valuable insight into the bank's view of economic conditions and inflation, the key factors that will shape the future of monetary policy.

The middle of the coming week will also bring with it a host of Purchasing Manager Index (PMI) data, detailing the results of a survey asking businesses to rate the relative level of business conditions including employment, production, new orders, prices, supplier deliveries and inventories. 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 with the BoJ during the beginning of the week, the European Central Bank (ECB) will hold a press conference on Thursday, giving their views on the current and future position of the bloc's economy. ECB officials have worked to push back on any talk of an imminent rate cut during the last few months, despite falling levels of inflation on the continent. With this in mind, we shouldn't expect any moves from the bank just yet, but any hints as to future rate guidance will be highly scrutinised by investors.

The week is rounded off with US monthly Core PCE Price Index numbers. 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. CPI readings also only covers 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. Adding even more importance to the figures is that the data is reportedly the preferred piece of data for the US Federal Reserve, using it as their primary inflation measure.

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 19 January 2024.

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