January 2023:
A summary for investors

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What's happened in January?

- Central banks in the US, UK and Europe all held interest rates
- Slow growth in Eurozone, but recession avoided
- Markets continued to fluctuate

Market summary

Economic data and central bank decisions caused swings in stock and bond markets in January.

The US Federal Reserve, the Bank of England and the European Central Bank all held interest rates, despite a three-way split in the UK where two members of the committee voted to increase rates.

This probably had something to do with the unexpected increase in UK inflation which, year on year, rose to 4% in December - up from 3.9% in November. Despite this rise, April should bring another significant drop in the year-on-year numbers, as the next big fall in energy prices comes into the figures. UK wage growth also eased to 6.6% in the three months to November, helping to keep the prospect of a May or June rate cut from the BoE alive.

US stock markets continue to thrive, thanks to the enthusiasm about AI and optimism around avoiding recession. The S&P 500 hit multiple record highs during the month, led by the 'Magnificent 7' stocks.

In Europe, rates stayed at a 22-year high of 4.5%. European Central Bank officials unanimously agreed it was too early to discuss rate cuts, despite no growth in the Euro Area economy in the fourth quarter and the German economy contracting by 0.3%. Year-on-year, inflation in the Eurozone rose to 2.9% in December from 2.4% in November.

In China, the economy expanded by 5.2% in the fourth quarter of 2023, up from 4.9% in the third, and it's likely that Peoples' Bank of China activity will inject liquidity into Chinese markets in early February.

Meanwhile, the Bank of Japan kept its key short-term interest rate unchanged at -0.1%, held the 10-year bond yield at around 0% and cut its CPI projection for 2024 to 2.4% to reflect declining oil prices in January.

The exciting year-end rally in December was always going to be a hard act to follow in January so it's not surprising investors saw mixed results.

Selectivity will be key for investors in 2024 as the days of artificially low interest rates would seem to be behind us.

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