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Article MARKET COMMENTARY

Market round-up: 04 March - 08 March

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

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Duration: 4 Mins Date: 08 Mar 2024

This week just ended

They say investing is like a game of chess, planning out multiple moves and strategies to examine all your options, identifying choices and then capitalising, in what professional chess players "candidate moves".

With the Chancellor of the Exchequer, Jeremy Hunt, delivering the Spring Budget this week outlining the government's own candidate moves to stimulate the economy, even the man with the famous dispatch box has a title indebted to the centuries old game. Interestingly, the origins of the Exchequer part of his title goes back to the Norman period, with the word "exchequer" coming from the Latin "scaccarium" meaning a chessboard.

Indeed, over at the House of Commons on Wednesday, Jeremy Hunt was stuck between something of a *rook* and a hard place, as he tried to produce enough tax cuts to bolster a government severely behind in the polls, whilst simultaneously trying not to have the same disastrous impact the Truss/Kwarteng mini budget had in late 2022.

In the end, the Chancellor walked the tightrope well, providing many of the measures that had been anticipated by commentators, such as an amendment to the non-dom tax regime in 2025, the introduction of a £5,000 ISA allowance for savers investing in "UK-focused" shares to be established after consultation, and the flagship policy – a cut of 2p in the pound for National Insurance contributions for both employees and the self-employed.

After the announcement, sterling showed little initial reaction, while stocks – especially in the more domestically orientated FTSE 250 – extended gains. Government bonds also held fairly steady given the government's borrowing plans for the coming financial year lacked the fireworks unleashed under the previous administration.

There was also a *European opening* on Thursday as it seemed the European Central Bank (ECB) had almost made it to the other end of the board in terms of inflation. The bank kept borrowing costs at record highs during its scheduled press conference, whilst cautiously laying the ground to lower them later this year, commenting on its progress in bringing down inflation.

"We did not discuss cuts for this meeting, but we are just beginning to discuss the dialling back of our restrictive stance… We will know a little more in April, but we will know a lot more in June" ECB President, Christine Lagarde, told a press conference, setting up the possibility of a first rate cut by the summer. Investors are now pencilling in four 0.25% rate cuts on the continent this year, taking overall borrowing costs to around 3%.

Towards the end of the week, investors also cheered a broadly dovish statement from US Federal Reserve Chair, Jay Powell. Although not as *black and white* as perhaps his European counterpart, Powell commented that the Fed "would like to see more data that confirm and make us more confident that inflation is moving sustainably down to 2%" before reducing the policy rate. However, he did also say that rate reductions will "likely be appropriate" later this year…if the economy evolves broadly as expected."

After the news, not only did global stock markets rally and US Treasury yields continue a week-long slide, but gold prices hit an all-time high, benefiting from a weaker US dollar. It seems that with a more synchronised central bank policy forming to cut rates, it soon could well be *check mate* for the record levels for borrowing costs that have so blighted investor sentiment over the previous years.

This coming week

The coming week not only brings with it the Cheltenham Festival, a week-long extravaganza of horse racing, but also just as many runners and riders in terms of market data making their way towards the finishing post too.

Out of the starting gate on Tuesday, the Office for National Statistics brings us a useful piece of employment data in the form of Claimant Count Change numbers, detailing the difference in the number of people claiming unemployment-related benefits from to month. Although the data is generally viewed as a lagging indicator, the number of unemployed people is an important signal of overall economic health, considering consumer spending is so highly correlated with labour market conditions. Due to this, it is unsurprising that the overall unemployment level is also a major consideration for those at Threadneedle Street when considering future rate policy.

The US Federal Reserve have vowed to remove their blinkers entirely when it comes to inflationary data, refusing to cut rates until they are comfortable that price rises are subsiding in most facets of the economy. Tuesday afternoon should help us get more of a handle on US inflation with Consumer Price Index (CPI) data being made public – the broadest measurement of how prices are adapting in the world's largest economy.

It could indeed be a two-horse inflationary race by the second part of the week as the US also releases it Producer Price Index (PPI). Although very similar to CPI, the reading focuses on the change in the price of finished goods and services sold by factories and workshops, dovetailing well with Tuesday's consumer inflation data to give us a more complete picture.

Falling at the final hurdle, the UK economy has now indeed fallen into a technical recession recently, experiencing a contraction in Gross Domestic Product (GDP) for two consecutive quarters. However, the coming week also provides us with monthly GDP figures, acting as a possible indicator of just how long and potentially mild this recession could prove to be. With an election on the horizon for later in the year, the data could prove a tough final furlong for both those in the City of London and City of Westminster.

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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.