Article MARKET COMMENTARY

Market round-up: 15 - 19 April

Tom Watts recaps the week and looks ahead to next week.

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This week just ended

Injuring his ankle whilst skiing, German Army Doctor, Klaus Martens, found his standard army boots were too uncomfortable on his recuperating foot. Attempting to rectify this, he designed various improvements to his footwear, such as adding softer leather and air padded soles made of tyres. After commercialising his product, interestingly, the comfortable soles were initially a big hit with housewives, with 80% of sales in the first decade made to women over the age of 40. With the patent bought in the UK some years later and the yellow stitching added, today Dr. Martens produces over 10 million pairs of boots a year, making them a British design icon.

However, all has not been well at the company of late, with its shares plunging over 30% to a record low on Tuesday after the boot maker warned of another tough year in its key U.S. market, a challenge for its incoming chief executive. The company has been struggling with customer destocking and reduced orders in the United States from wholesale customers wary of economic pressures for a while now, weighing on sales.

With this in mind, it was interesting to analyse US Retail Sales data released at the beginning of the week, as stronger than anticipated numbers left markets on the back foot. It seems higher borrowing costs have failed to deter shoppers, with sales increasing 0.7% for the month, considerably faster than the forecast of a 0.3% rise, though below the upwardly revised 0.9% for February. Multiple categories did report declines in sales for the month however, Sporting goods, hobbies, musical instruments, and books posted a 1.8% decrease, while clothing purchases were off 1.6% and electronics and appliances saw a 1.2% drop.

With the Bank of England (BoE) having moderate success with bringing inflation to *heel*, Wednesday's Consumer Price Index (CPI) made for a mixed reception. Prices rose 3.2% on annual basis for March, down from 3.4% the previous month but not as much as the 3.1% hoped for. Slowing meal prices were almost the sole reason for the decrease in headline inflation with food and non-alcoholic beverages increasing by 4% over the 12 months to March, their weakest rise since November 2021.

Core inflation, which excludes volatile energy, food, and tobacco prices, slowed to 4.2%, from 4.5% in February, but was higher than the 4.1% predicted.

If the shoe fits as they say, with the data corresponding well with domestic employment figures released the day prior, showing that average wages increased quicker than expected for the quarter. The unemployment level did unexpectedly creep up however, but not enough to convince investors that the BoE would take solace from the figures.

After the slew of UK data, sterling rose by about half a cent against the dollar as the chances of a summer rate cut from the BoE began to dwindle, with worries that inflation if not falling as quickly as the central bank would like.

Wanting to tread carefully, BoE Governor, Andrew Bailey followed up the release with his views, commenting that inflation is broadly declining in line with the central bank's forecasts, with next month's numbers looking on track for a sharp drop towards the central bank's 2% target.

"We're actually pretty much on track for where we thought we would be and expect that next month's number will show quite a strong drop," he added.

Last month the BoE said it expected inflation to fall below 2% in the second quarter of this year, due largely to a scheduled fall in regulated energy tariffs.

But it has also forecast that inflation will rise back towards 3% later in the year due to continued strong wage growth and services price inflation, which some policymakers have said is a bigger factor for them in determining when to loosen policy. After the news, financial markets scaled back their expectations for BoE rate cuts slightly, now having only one 0.25% rate cut fully priced in for this year, most likely in August or September. However, with so much still to play out, even those estimates could prove to be a load of cobblers…

This coming week

As we approach the end of April, it seems Spring time for the markets (as well as for the weather) has yet to materialise, as a cocktail of persistent inflation and geopolitical issues take their toll on global markets. With a relatively quiet week in terms of economic data releases on the horizon, it is aptly in the land of the rising sun, where most of the headlines could come from.

With the Bank of Japan (BOJ) having raised rates during its last meeting for the first time since February 2007, all eyes will be on their meeting this week to see what the central bank will do next. Data showed that Japanese inflation slowed down in March but underlying inflationary pressures are still very much alive. A pause at this week's meeting is widely expected, leading markets to focus more attention on the bank's quarterly outlook report.

It is widely expected that the BoJ to revise up its inflation outlook, which is now expected to show core inflation at 2%. This will be an important factor for investors when determining when and how much interest rates could be raised by the world's third largest economy going forward.

There is plenty happening around the rest of the world to give us a steer on how companies are seeing the global economy as Tuesdays sees a mass of Purchasing Manager's Index (PMI) readings released. 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 businesses will be asked to rate the relative level of business conditions including employment, production, new orders, prices, supplier deliveries and inventories.

The end of the week will be wrapped up in the US with monthly Core PCE Price Index numbers released. Predicted to make quite the impact on the markets after its release, the data differs from normal inflation 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.

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