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Article MARKET COMMENTARY

Market round-up: 13 - 17 May

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

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Duration: 5 Mins Date: 17 May 2024

This week just ended

During a week in which International Distribution Services, the owner of the Royal Mail, looked poised to accept an improved takeover bid of around £3.5bn from shareholder and Czech billionaire Daniel Kretinsky, it's been stock markets that have been really delivering, hitting all-time highs on an almost daily basis of late.

The volume of letters being posted has plummeted in the last decade or so, with half the number being sent compared to 2011 levels, thanks to increasingly popularity of Emails and phone messaging services, making it difficult for the national postage service to turn a profit. This week, labour figures from the Office for National Statistics showed that the amount of unemployment cheques in the post may also been falling of late too.

Data posted on Monday from the Office for National Statistics showed that 8,900 British workers signed on for unemployment benefits this month, far lower than the 13,900 predicted. However, there were several other facets of the unemployment landscape that showed the labour market is starting to cool. Although normal wages, excluding bonuses, rose by 6% during the first three months of 2024 compared with the same period last year, private sector pay, a key measurement for the Bank of England, eased slightly to 5.9%, a touch below the central bank's most recent forecast. The unemployment rate also rose to 4.3%, its highest since the summer last year, whilst vacancies fell for the 22nd time in a row in the three months to April, dropping by 26,000 from the November to January period. With the data proving to not be the full package, investors kept their predictions of a BoE rate cut on a knife edge, pricing in a 50/50 chance of a rate cut in June.

Gaining investor's full stamp of approval this week was US inflation data, coming in at 0.3% monthly, versus expectations of 0.4%. The cost of shelter, which includes rents, increased 0.4% for the third straight month, with petrol prices also rising 2.8%, the two categories accounting for over 70% of the reading. On an annual basis, inflation fell to 3.4% from 3.5% last month, leaving US investors pricing in a 73% probably of a rate cut from the US Federal Reserve in September, up from 69% before the data. Predictions of a July cut also crept up on the news.

Alongside the inflation data, retail sales numbers remained flat in April, against expectations of a 0.4% rise, after increasing 0.6% in March. The weaker data was driven by sales at online retailers dropping 1.2% after surging 2.5% in March. Sales at food services and drinking locations, a key indicator for investors and the only services component in the report, gained 0.2%.

Such was the euphoria surrounding prospective rate cuts, both the US and UK stock markets hit all-time highs on Thursdays, with the global equity composite benchmark also hitting record highs, as investors piled into riskier assets.

More positive news was to come, this time from Asia as the Chinese Bureau of Statistics released more upbeat that expected Industrial Production numbers. Industrial production really pushed the envelope, rising by 6.7% in April from a year ago, beating expectations for 5.5% growth, and acting as a marked pick up from 4.5% in March. However, property investment steepened its pace of decline, falling 9.8% year-on-year for the first four months of this year.

The Chinese property sector was also the focus of investor attention later on in the week as the Chinese central bank declared that it will cut interest rates of mortgage loans and down-payment ratios for homebuyers. The new legislation is the latest in a long line of attempts to boost the country's lacklustre property demand, with the government also abolishing the floor level of the interest rates for mortgages for the first and second homes at the national level.

With global markets having posted strong gains for the week, Friday saw investors crystalise some of their profits, taking heed from comments made by the vice chair of the US Federal Reserve, John Williams the night before. Acknowledging this week's weaker inflation print, he remarked "I don't see any indicators now telling me ... there's a reason to change the stance of monetary policy now," adding that he did not expect the case for a rate cut to fall into place "in the very near term." After his comments, investors began to price in a lower amount of cuts for the year, showing that much like with a certain Czech billionaire, it's worth taking what you hear to the letter…

This coming week

With a sprinkling of bank holidays throughout Europe and Canada, the coming week may seem a little sparse in terms of economic data releases, however domestic housing numbers on Monday should set the foundations in more than one way for what could be a busy week here in the UK.

Monday will see online estate agent, Rightmove, release it Housing Price Index (HPI) numbers. The data usually acts as a leading indicator of the housing industry's health because rising house prices usually attract investors and spur industry activity. When a house is bought or sold, it creates a ripple effect across many different sectors, from solicitors and surveyors to DIY shops all cashing in, making the data both important and far-reaching.

With the chances of a rate cut hanging in the balance for June, both the Bank of England (BoE) and investors will be keeping a firm eye on Wednesday’s inflation data, possibly the last piece of meaningful data those on Threadneedle will receive before their June meeting and subsequent decision. With Inflation having falling steadily from its peak in October 2022, headline inflation currently sits at 3.2%, still uncomfortably above the BoE’s 2% target, many will be hoping for solid progress in this month’s reading, leaving the bank with a decision to make on borrowing costs.

With many pondering what the BoE intend to do, the middle of the week should tell us exactly what is on the US Federal Reserve’s mind, as they release the minutes from their last policy meeting. The release will act as a detailed record of the central bank’s most recent meeting, providing in-depth insights into the economic and financial conditions that influenced their vote on where to set interest rates and should have a strong impact on global markets.

The end of the week should be wrapped up with a mass of Purchasing Manager’s Index (PMI) readings. 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 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 17 May 2024.

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Risk warning

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