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Home Market round-up

Article MARKET COMMENTARY

Market round-up: 01 - 05 July

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

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This week just ended

"Economists are often asked to predict what the economy is going to do. But economic predictions require predicting what politicians are going to do– and nothing is more unpredictable."
- Thomas Sowell, Economist

Fourteen years of Conservative rule came to an end this week after failing to make any headway into the strong majority in the polls Labour had enjoyed for the best part of 2 years. After 6 weeks of bungee jumping, milkshakes, Taylor Swift Concerts and lamenting about a lack of Sky TV, it will be Sir Keir Starmer who picks up the keys to No.10, after a quick visit to Buckingham Palace on Friday afternoon. ıt is interesting to note that Labour actually only secured 34% of the vote, the lowest share to have ever secured a majority, with the rise of the Reform party seemingly doing most of the damage to the Conservative vote.

After fulfilling the landslide victory the exit polls predicted, "We did it," Sir Keir Starmer exclaimed in a victory speech. "Change begins now ... We said we would end the chaos, and we will, we said we would turn the page, and we have. Today, we start the next chapter, begin the work of change, the mission of national renewal and start to rebuild our country."

Starmer and Labour’s victory certainly got the financial market’s vote it seems, with the more UK orientated mid cap index enjoying its best day this year earlier in the week as the final polls showed an incoming "Starmer tsunami". With the majority of the results having been declared by Friday morning, domestic markets enjoyed another strong rally, again with companies more dialled into the UK economy, pushing the mid cap index up by another 1.2%, to a one month high.

Leading the way after the result was the British house building sector, seeing various property-based companies heading to the top of the index, with the new Labour manifesto promising to speed up home-building by reforming the country's planning system.

Markets the other side of the Channel were also rallying towards the back end of the week as news from France’s own national elections showed the far-right National Rally party looked set to fall short of the absolute majority it needs to govern outright after the second round run-off vote on Sunday, polls showed.

In terms of economic data for the week, data showed that growth across Britain's Services sector slowed by less than first thought in June but still came in a seven-month low. The composite reading, which combines the Services sector data with Monday's manufacturing survey, fell in June to 52.3 from 53.0 in May, its lowest reading since December.

"We are seeing some evidence of a pre-general election seize-up across the UK services economy," summarised the survey organisers.

Comments on the economy were all the rage this week as investors soon turned their attention to the US, where the Federal Reserve released the minutes from their last meeting. Adding to hopes a rate cut is on the way, San Francisco Federal Reserve Bank President Mary Daly said "We are getting evidence that policy is tight enough… It's really challenging to look anywhere and not see monetary policy working: we have growth slowing, spending slowing, the labour market slowing, inflation coming down."

With other more dovish comments from Fed governors throughout the week, markets began to price in a c.70% chance that we should expect a rate cut in the US by September, with the odds of a further rate cut during December also growing.

The views described in the Fed's minutes took on added significance with highly important Non-Farm Payroll data released on Friday, measuring the amount of Americans having joined the labour force the previous month, a key piece of data when determining overall inflation. A mixed bag at best, the numbers showed that the jobs market had added 206,000, slightly more than the 191,000 predicted, although the unemployment rate did tick up to 4.1%, whilst average hourly earnings rose at, 0.3% for the month, slowing from 0.4% from the previous reading.

Interestingly, data for May's reading was revised sharply down to show 218,000 jobs added instead of the previously reported 272,000, it a week characterised by general elections, that's a bal-lot of jobs…

This coming week

With politics having taken centre stage last week, we're not quite of the woods just yet. Whist there may be a new man in No.10, the election across the Channel rages on, as the French electorate heads to the polls for the second time on Sunday.

With the potential fallout from the elections having an impact on European markets especially, it is useful that Monday brings us European investor confidence figures. Surveying 2,800 investors and analysts across the continent, respondents are asked to rate the relative six-month economic outlook for the Eurozone. With the far right and left polling well in France and government debt becoming more expensive to service, it will be interesting to see how much of an issue this is for those in Europe. The data itself will act as a leading indicator of economic health with investors and analysts are highly informed by virtue of their job, and changes in their sentiment can be an early signal of future economic activity.

The middle of the week should see investor attention switch to central bank movements, beginning on Tuesday evening, as the Chair of the US Federal Reserve, Jay Powell, testifies about the Semi-Annual Monetary Policy Report before the Senate Banking Committee, in Washington DC. With the minutes from the Fed's last meeting showing that the bank was becoming increasingly satisfied that inflation was coming under control, stoking expectations of a rate cut for September, Powell's engagements will be heavily scrutinised by investors, trying to pick up any hints as to future rate policy.

Our own Hugh Pill is also due to speak during the middle of the week, with the Bank of England's Chief Economist due to cover a range of topics. His words could take on added significance with monthly Gross Domestic Product figures released later on in the week, showing how much the UK economy has grown month on month. Although the central bank is meant to be politically impartial, we may receive the slightest hint as to his views on what is going on in Westminster too.

The tone for the second half of the week, could be set by US inflation numbers released on Thursday. The data will come in two parts, Core, stripping out such volatile sectors as food and energy, and Headline, a much broader measurement but nonetheless highly valued by those officials at the Federal Reserve. Measuring the change in the price of goods and services purchased by consumers, the data is released a day before another key inflation metric is made public, the Purchaser Price Index, measuring the rise in cost of finished goods and services sold by producers, giving us a comprehensive view of the inflation situation in the world's largest economy.

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