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Article MARKET COMMENTARY

Market round-up: 20 – 24 January

Blue Monday, the colour of money and gardening, Thomas Watts recaps the week for markets and looks ahead to next week.

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This week just ended

Reinforced by a certain level of pseudoscience, the beginning of the week started with the much maligned "Blue Monday", often touted as the most depressing day of the year.

The actual formula to calculate the precise date incorporates many factors; the depressing weather, consumer debt levels after a Christmas of spending, the growing period since Christmas festivities, time since new year's resolutions have been broken, low motivational levels and the feeling of a need to act.

Whilst there is undoubtedly some truth behind the theory, the concept is actually a commercial one, having been invented by UK holiday company, Sky Travel, back in 2005, to lure consumers into wanting to book a trip to escape the gloom…

It was something of a colourful week for markets too this week, with investors having felt a full spectrum of emotions by Friday. Whilst Blue Monday may have taken hold here in the UK, Red was the colour in the US, as the world held its breath during the inauguration of Republican, Donald Trump, as the new President of the United States of America.

Promising to usher in a new "golden age" for Americans, financial markets were less sure during his first day on the job, whipsawing as investors attempted to second guess what policies may be implemented down the line. For example, just as investors cheered the possibility of a delay in Trump's implementation of tariffs following a **brief mention** of the topic in his inauguration speech, Trump said shortly after that he was **mulling** imposing 25% tariffs on Mexico and Canada as soon the first day of February. On the news, the Mexican peso slid 1% against the dollar, while the Canadian dollar tumbled to a five-year low.

On a sector basis, oil and gas producers rallied after trump declared "We will drill baby, drill," laying out plans to maximise production by declaring a national energy emergency, stripping away excess regulation and withdrawing from the Paris Climate Treaty.

It was all about the colour of money in the UK during the early parts of the week as domestic labour data showed private-sector average weekly earnings growth excluding bonuses, a measure watched closely by the Bank of England, rose to 6% in the three months to November from 5.5% in the three months to October.

The data also showed that the unemployment rate rose slightly to 4.4% in the three months to November, its highest since the three months to May last year.

With the Bank of Japan (BoJ) repeatedly laying the foundations of a rate hike for early 2025 until they were blue in the face, it came as little surprise to markets that the central bank increased their borrowing costs by 0.25% to 0.5% on Thursday evening. In its outlook report, the board of the BoJ raised its forecast for core inflation to hit 2.4% during 2025 before slowing to 2.0% in 2026, justifying a move to try and stymie rising wages and spending, with the markets currently pricing in one more such move, probably towards the end of the year, despite the bank later declaring it "wasn't "seriously behind the curve".

On the news, the yen strengthened and Japanese government bond yields rose to fresh multi-year highs, whilst Japanese equity markets remaining about flat.

Reinforcing that blue feeling felt here in the UK, data released on Friday showed that domestic consumer confidence sank this month to its lowest level in over a year, marking the steepest drop between the months of December and January since 2011. The monthly consumer confidence index fell in January to -22 from -17 in December, echoing a run of downbeat economic signals since Labour's Autumn Budget, which raised taxes on businesses to help increase funding for investment and public services. Although many economists still think Labour's higher spending may help to raise growth, albeit temporarily in the coming year what else the government can do the reinvigorate the economy though largely remains a bit of a grey area…

This coming week

As any keen horticulturalist will tell you, although the coming week transitions us from January to February, it still isn't really a time to get an awful lot done in the garden (apart from pruning your Wisteria and Hydrangeas of course). Perhaps the Anglo-Saxons were on to something when they used to refer to February as *Solmonath*, literally translating to "mud month".

With this in mind, by the time we really dig into the week, we'll already be amongst the weeds of important Chinese data by Monday morning. With China's recovery from the pandemic having been patchy at best, many will be hoping the world's second largest economy has turned over a new leaf as it releases its Manufacturing and Non- Manufacturing Purchasing Manager Index figures. The data acts as a leading indicator of economic health - businesses react quickly to market conditions, and their purchasing managers hold perhaps the most current and relevant insight into the company's view of the economy. The breadth of the survey is also important as over 3,000 managers are asked to give their views on business conditions including employment, production, new orders, prices, supplier deliveries.

As the week progresses, we get out of the garden and into the home, as two key pieces of housing data from the US in the form of Housing Price index numbers and New Home Sales. New Home sales figures should be the standout number, acting as another leading indicator of economic health due to the considerable ripple effect buying a new house can have. For example, consumers tend to purchase new furniture and appliances are purchased for the home, a mortgage is sold by the financing bank, solicitors and estate agents are paid to execute the transaction etc.

As the week comes into bloom, we should see it branch off in different directions as two central banks come to the fore, the European Central Bank (ECB) and US Federal Reserve. With inflation drifting down towards the ECB's target of 2%. With key policymakers from the central bank indicating that we should expect around four 0.25% cuts throughout the year, markets are fully pricing in a move when the bank convenes next week.

On the opposite side of the fence, the US Federal Reverse has recently been tempering expectations of rate cuts, seemingly ruling themselves out of any move until at least the summer. With the market seeing just two 0.25% cuts going forward in the US, both towards the end of 2025.

A piece of data that could help sway the Fed's decision arrive on Friday afternoon in the form of monthly Core PCE Price Index readings. Predicted to *leaf* quite the impact on the markets after its release, the data differs from normal inflation readings in that it only measures goods and services targeted towards and consumed by individuals. CPI readings also only cover 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 reading.

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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.

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