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Article MARKET COMMENTARY

Weekly round-up: 28 July - 1 August

Tom Watts recaps the past week's events and looks ahead to the next.

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This week

Ozempic has been hailed as a wonder drug that could not only transform the healthcare industry, but also Danish pharmaceuticals heavyweight (so to speak), Novo Nordisk's fortunes. However, this week saw Novo Nordisk's share price tumble more than 20% as the firm not only cut its outlook for future earnings, but also named a new CEO. Once a darling for European investors, Novo Nordisk claimed this week that more "knock-off" weight-loss drugs were emerging, and whilst they described these drugs as both "unsafe and unlawful", they stated that they are quite literally taking a bite out of Novo Nordisk's profits.

With all this talk of weight loss drugs throughout the week, investors were also given plenty to weigh up, including a raft of data and words from the US Central Bank that looked to have tipped the scales towards a later-than-anticipated rate cut.

Wednesday evening saw the US Federal Reserve keep rates unchanged, a widely expected outcome, although the Central Bank stated that "the unemployment rate remains low, and labour market conditions remain solid… inflation remains somewhat elevated," showing they were in no rush to move on rates. US stocks retreated after the Fed Chair, Jay Powell, said it was too soon to say whether the Fed would cut rates at its next meeting in September, noting that the current policy was moderately restrictive, yet not significantly hindering the economy. Market expectations for a September rate cut fell from a 68% chance before Powell's words, to below 50% afterwards.

Another factor of interest to the Fed's announcement, was that it was a split decision to hold rates, with two officials dissenting on the majority view. Governor Christopher Waller and Fed Vice Chair Michelle Bowman both voted for a 0.25% rate cut, the first time this has happened since 1993.

There was only ever a slim chance that the week would be quiet, especially after Monday saw global stocks fall, with investors cautiously greeting a long awaited trade agreement between the US and European Union.

The European Commission President Ursula von der Leyen described the deal as the best the bloc could get. The US will impose a 15% import tariff on most EU goods while the EU is set to spend $600 billion on US investments and open up some important parts of its market.

While the accord may have averted a damaging standoff between the trading partners, which account for almost a third of global trade, some European governments complained that the EU showed no stomach for risking a fight with the US. Investors also noted a strong slimming down of US commitments, questioning how Europe's requirement for spending on US defence and energy would be enforced, dragging down equity markets in the aftermath.

The biggest data release this week came in the form of US Non-Farm Payroll data, detailing how many Americans had joined the labour force and it was definitely worth the *weight*.

Data showed that US job growth was much slower than expected in July, with the data from the prior month also revised sharply lower. It appears that just 73,000 Americans obtained a job last month, far lower than the 106,000 anticipated. With the numbers showing a clear downturn in the US employment landscape, it seems that getting a job in the US, much like many of Novo Nordisk’s old patient’s diets, is now no piece of cake…

Next week

After what has been a busy week for investors, the coming week reverts to what we might expect for the middle of summer.

Whilst a quiet week may be on the horizon, at least in terms of data releases, for those on Threadneedle Street, the coming days will seem like anything but a day on the beach, with the Bank of England (BoE) widely expected to cut rates on Thursday. Although the move is broadly priced in, there is the likelihood that we could see a fresh three-way split among the nine policymakers that vote on rates, underscoring the conflicting risks posed by rising inflation and a weakening job market for the domestic economy.

The BoE's rate setting committee still appears divided between those who want aggressive cuts to offset the slowing job market, others who worry about persistent inflation pressure, wishing to keep borrowing costs where they are, and a majority in the middle who favour gradual rate cuts.

BoE Governor Andrew Bailey and most of his colleagues have stuck to their "gradual and careful" messaging about how quickly they are likely to ease the burden of high interest rates on Britain's economy, but the upcoming meeting could see something of a fracture, keeping investors on their toes as we look for hints towards policy for the rest of the year.

Whilst arriving too late to have too much of an impact on the BoE’s decision, Halifax will release its House Price Index data. The figures will measure the change of value for properties on its books at a relatively quiet time for those looking to buy or sell a house, however, with house prices having come off all-time highs in previous readings, the data could prove to be very interesting for those in the market.

Much like the property market, the jobs market also slows down for the summer, a phenomenon that could well be illustrated by US Unemployment Claims, released towards the end of the week. Forming an important part of the overall labour landscape, the data will be crucial in helping us to understand just how difficult the current environment is when looking for a new role. The data has taken on added significance over recent months as the US Federal Reserve becomes increasingly data dependant, focussing on labour market strength when formulating future rate policy.

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