

July 2024

Investment & Market Updates

Monthly Market Update



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US stocks soar as European markets falter



US stocks hit new highs in June, while European markets faced pressure due to political uncertainty

US stocks soared to new highs in June, driven higher by artificial intelligence momentum in the tech sector and inflation nudging downwards, lifting hopes for rate cuts. The US Federal Reserve (Fed) signalled it will cut rates just once this year despite inflation falling from 3.4% to 3.3% in May. The US central bank decided to hold interest rates at 5.25% to 5.5%, where they have been for nearly a year.

The inflation figures will provide a boost to US President Joe Biden who is seeking to convince voters of his economic record in the run-up to the election in November.

The US economy remains solid, despite high interest rates. The US labour market created 272,000 jobs in May, which is more than expected. However, unemployment ticked up slightly to 4%. In a notable downshift in consumer spending, US retail sales barely increased in May, rising by just 0.1%.

Bank of England holds rates

UK stocks dipped after hotter than expected inflation pushed back hopes of a June interest rate cut. The Bank of England held interest rates at a 16-year high of 5.25%, despite inflation hitting the 2% target. While consumer price rises have slowed, services inflation, a key metric that is closely watched by the Bank, was higher than expected at 5.7%. As a result, analysts now believe interest rate cuts could be pushed back to September.

The UK jobs market weakened after a surprise uptick in the jobless rate, which rose to 4.4% in the three months to April. Wage growth remained strong at 6% in the three months to April and continued to outstrip price rises. The UK economy recorded no growth in April after wet weather put off shoppers and slowed construction.

ECB cuts rates

European stocks fell after French President Emmanuel Macron called a snap election following a surge in support for the far-right in the 2024 European Parliament election. The European Central Bank (ECB)

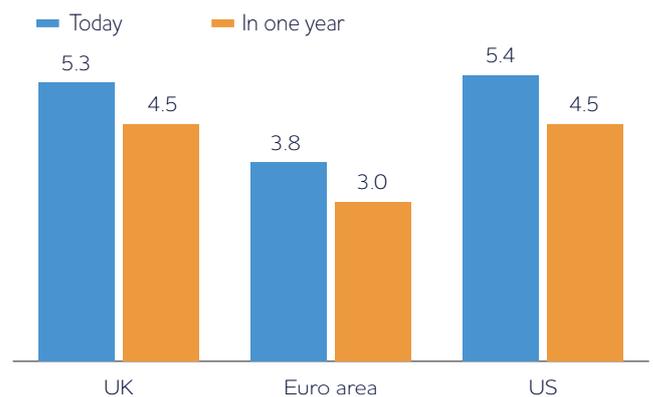
cut interest rates for the first time in nearly five years, moving away from the Fed and the Bank of England as inflation starts to fall. The cut takes the benchmark rate to 3.75% from a record high of 4%, where it has stood since last September.

Consumer prices in the euro area rose by 2.6% year-on-year in May, up from 2.4% in April. Core inflation, which shows prices without energy and food costs, also rose to 2.9%, up from 2.7% in April. The labour market remains strong despite high interest rates. Unemployment hit a new record low, falling to 6.4% in April, down from 6.5% in March.

Meanwhile, China's exports and retail sales rose for the second month in a row in a boost for the economy despite growing trade tensions. However, other sectors of the economy painted a less optimistic picture. House prices have suffered their biggest fall in more than a decade despite Beijing's support measures. Industrial output also lost some momentum. The US has announced a tariff increase on Chinese electric vehicles (EVs) and other goods, while Europe also plans to impose import tariffs on EVs.

Figure 1: Falling rates

Interest rate expectations one year from today (%).



Source: Bloomberg as at 30 June 2024

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