



Weekly Investment Update

2nd August 2024

News Headlines

Bank of England Rate Decision – On Thursday, the Bank of England's Monetary Policy Committee (MPC) voted 5-4 in favour of reducing the Bank Rate by 25 basis points, lowering it to 5%, the first rate cut since early 2020. This decision was described as “finely balanced” for some of those supporting the move, and was made in response to stronger-than-expected GDP (gross domestic product) growth in the first half of 2024, and to align with the recent drop in 12-month CPI inflation to the target of 2%. However, inflation is projected to rise in the latter half of the year as a result of higher energy bills. Despite positive economic data, the MPC remains cautious about persistent inflationary pressures and economic risks.

Federal Reserve Rate Decision – At this week's Federal Open Market Committee (FOMC) meeting, the US Federal Reserve maintained the federal funds rate at 5.25% – 5.50% for the eighth consecutive meeting. Chairman Powell emphasised that the decision reflects ongoing concerns about inflation, which although easing, remains above the central bank's target level. He also indicated that a rate cut in September is “on the table” and noted that the decision would depend on all of the data available, particularly focusing on inflation and the state of the labour market.

US Economy – Economic concerns are resurfacing in the US as fears grow that prolonged elevated interest rates may be impacting growth. Weak economic data released over the last week, including ISM Manufacturing purchasing managers' index (PMI), Jobless claims and Nonfarm Payrolls, collectively heightened concerns about the US economic outlook. This shift in sentiment was evident on Thursday when this weak labour market and manufacturing data triggered a sharp selloff in US equities.

Market Summary

Global Equities – It was a volatile week in the equity markets. In the US, the S&P 500 and Nasdaq 100 rallied on the back of the FOMC meeting on Wednesday with the expectation of rate cuts in September increasing. However, following weak labour market data released on Thursday and fears of a recession looming, there was a large sell off in US equities, particularly in technology stocks. This resulted in both the S&P 500 and Nasdaq 100 indices posting small losses for the week as at Thursday's close. The largest weekly gains were seen in Asia, with both the Nikkei 225 and Hong Kong Hang Seng indices posting over 1% gains for the week as at Thursday's close. However, the Nikkei 225 saw significant losses on Thursday and Friday following the Bank of Japan's decision to hike interest rates.

Commodities – Commodity prices generally saw a small decline for the week as at Thursday's close. Oil prices sunk to near two month lows during the week, and have seen four consecutive weeks of losses, largely driven by growing concern that demand in the US will decline in the coming months. However, gold prices rose significantly this week due to growth fears and rising geopolitical tensions in the Middle East.

Fixed Income – In the US, a bond market rally has resulted in Treasury yields falling across all maturities this week, on the back of the FOMC meeting and with investors now pricing in more rate cuts. The 10-year treasury yield fell below 4% for the first time since February. Similarly in the UK, on the back of the Bank of England rate cut, UK 10 year Gilt yields fell to their lowest levels since February.

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Address:

Frenkel House, 15 Carolina Way, Salford, Manchester, M50 2ZY



Enquiries:

0161 886 8000
enquiries@ascenciaim.co.uk

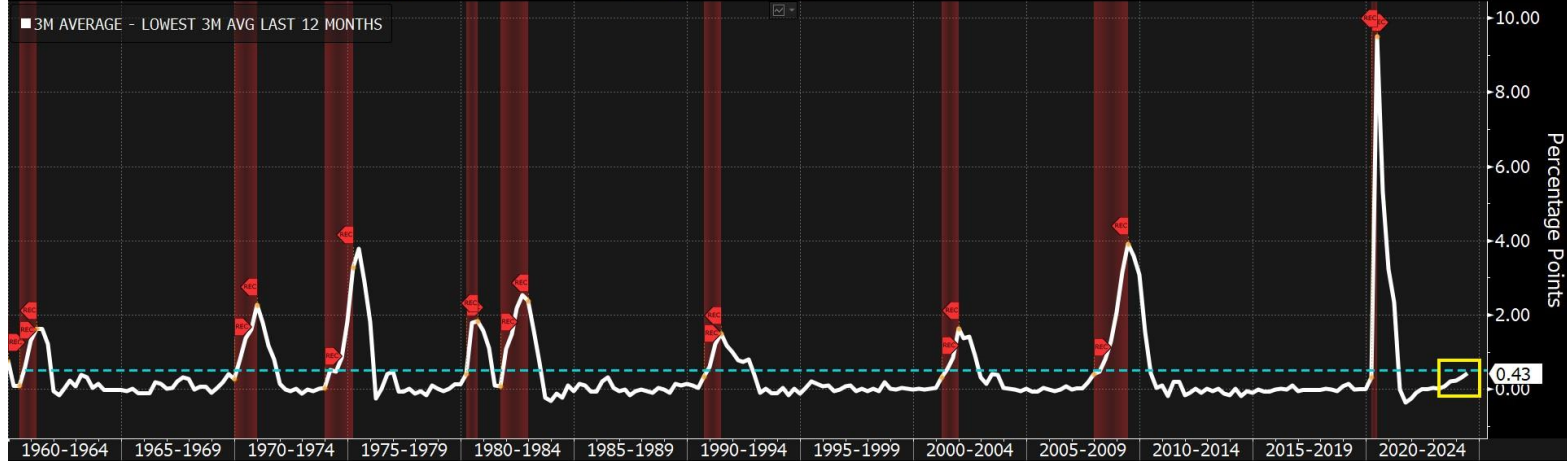


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Chart of the Week

Creeping Closer To Freakout The Sahm Rule: An 0.5pp rise in unemployment signals recession



Source: Bloomberg – Creeping Closer to Freakout

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
- US PMI Data	- RBA Interest Rate Decision	-	- US Initial Jobless Claims	- German CPI mm

Market Performance – 02/08/2024

Global Market Indices	2024 YTD %*
FTSE 100	9.55%
S&P 500	15.10%
STOXX 600	9.75%
Nikkei 225	14.92%
Hang Seng	4.88%
Fixed Income	Yield %
UK 10 Yr Gilt	3.86%
US 10 Yr Treasury	3.97%
Commodities	2024 YTD %
Gold	18.97%
Currency	
GBP/USD	1.27 (02/08/2024)
GBP/EUR	1.18 (02/08/2024)

Source: FE Analytics/ Bloomberg

*Total Return/Local currency

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