March 2024 | Market update

Tech stocks continue to drive markets higher

Strong earnings results from a range of companies helped to push stock markets to new highs

January's market rally sparked by tech stocks continued into February, with US benchmarks driven to new highs following some strong earnings results. The surge has been fuelled by optimism over the business potential of artificial intelligence. US equities were also buoyed by solid manufacturing, housing and labour-market data.

Markets were given a further boost after disappointing retail sales sparked hopes that the US Federal Reserve (Fed) might start cutting rates in the first half of the year. Retail sales dropped by 0.8% in January, below expectations of a 0.2% drop.

While US inflation continues to fall, price rises slowed by less than expected in January. Official figures showed that annual inflation in the world's largest economy fell from 3.4% to 3.1% in January. Core inflation – which excludes energy and food – was 3.9% year-on-year in January, in line with the previous month.

The US economy added 353,000 jobs in January, almost twice as many as forecast. Unemployment also remained close to a 50-year low at 3.7%. This was good news for US President Joe Biden whose polling on the economy has been poor despite the strength of the jobs market.

UK slips into recession

London's FTSE 100 rose despite news the UK fell into recession in the final three months of 2023, with investors expecting the Bank of England to cut interest rates sooner to stimulate activity. The UK inflation rate unexpectedly remained unchanged at 4% in January, defying forecasts of a rise. Core inflation also remained steady at 5.1%.

The Bank of England held interest rates for a fourth time in a row, but cuts are expected later in the year. The Bank also suggested it is likely to lower borrowing costs later this year after forecasting inflation will fall below 2% in the coming months. UK wage growth fell less than expected in December to 6.2%. The rate of UK unemployment dropped to 3.8% in the three months to December, down from 3.9% in the previous three months.

China sinks deeper into deflation

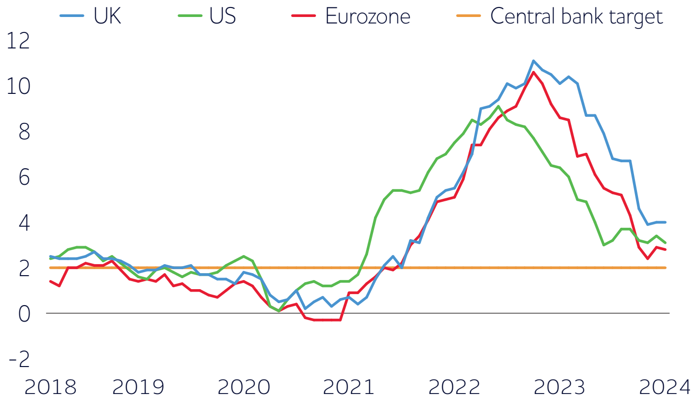
China's consumer prices fell at their fastest rate in 15 years in January as the economy sank deeper into deflation. Consumer confidence has been muted since the onset of the Covid-19 pandemic. Since lockdown restrictions were lifted, falling demand for Chinese goods globally and the property crisis have weighed on consumer spending.

Meanwhile, inflation across the eurozone slowed to 2.8% in January, raising hopes that the European Central Bank (ECB) could begin cutting interest rates over the next few months. Core inflation remained slightly higher than economists expected, despite slowing from 3.4% in December to 3.3% in January.

The eurozone's wage growth has slowed for the first time in 18 months, in a sign pay pressures are starting to ease. The ECB said it still needs more evidence that inflation is heading back to its 2% target before it can cut interest rates.

Figure 1: Global inflation rates (%)

Inflation continues to fade but remains above central bank targets.



Source: Bloomberg.

www.omnisinvestments.com

Omnis INVESTMENTS

Approved by Omnis Investments on 1 March 2024.