August 2024 | Market update

Mixed month for markets after tech stumbles

Shares prices dip after some big tech companies miss earnings expectations

It was a mixed month for stock markets as jitters over artificial intelligence (AI) sparked a tech sell-off. Earnings reports from some of the big tech companies have raised concerns among investors after they missed expectations. US rate cut expectations have also led investors to move out of tech heavyweights and into smaller companies that typically perform well when interest rates fall.

Markets were also hit after a global IT outage rippled across the global economy. Major stock market indexes slipped as airlines, train companies, banks, tech firms and media businesses were hit, with the outage linked to Microsoft.

Biden steps aside

President Joe Biden announced he would drop out of the 2024 presidential election and endorsed Vice President Kamala Harris. Despite this significant news, there was little market reaction.

The US Federal Reserve (Fed) held its benchmark interest rate steady in the 5.25–5.50% range, with most analysts now expecting a cut in September. US inflation cooled to its slowest pace in a year, with prices rising by 3% over the 12 months to June.

The pace of US growth accelerated in the second quarter, with GDP rising by 2.8% in three months to June – up from 1.4% in the first quarter. The labour market started to ease in June, with 206,000 jobs added to the US economy, while unemployment ticked up to 4.1%.

Labour wins landslide

The pound remained stable and markets reacted positively to Labour's landslide election win led by Sir Keir Starmer. There was no change in the rate of UK inflation in June, which remained at 2%, the Bank of England's target. But core and services inflation was higher than expected, raising questions for policymakers over when to start cutting interest rates. Service inflation grew by 5.7% – the same as a month earlier. Core inflation – which excludes fuel and food in measuring price rises – remained at 3.5%.

The UK economy grew faster than expected in May, with GDP rising by 0.4%. However, UK retail sales plunged across most sectors by 1.2% in June, after unseasonably cooler weather put off shoppers.

French election leaves no clear majority

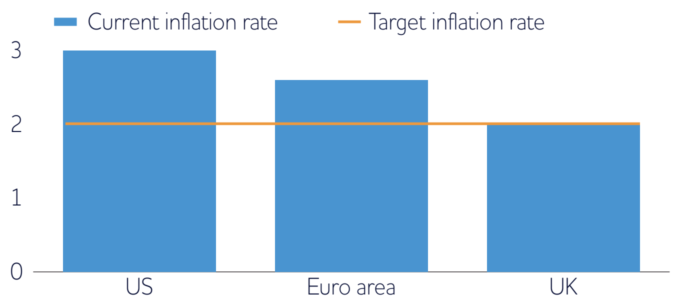
European markets were mixed after a left-wing coalition secured the most seats in the French parliamentary elections. However, no one party gained a clear majority, leaving France in political limbo.

The European Central Bank (ECB) left its key interest rate benchmark unchanged at 3.75% as its chief Christine Lagarde said the decision on a possible cut in September was "wide open". Euro area headline inflation dipped to 2.5% in June from 2.6% the previous month.

Meanwhile, China's central bank cut several key interest rates in an effort to boost an economy that has suffered a sharp slowdown from a property slump. With falling house prices still acting as a drag on growth, the Chinese economy expanded at an annual rate of 4.7% in the second quarter – below the expected rate of 5.3%. A trade war with the West is also heating up, with Europe and the US announcing tariff increases on electric vehicles and other goods.

Figure 1: On target

Inflation is now at the Bank of England's 2% target and continuing to fade towards that level in the US and euro area.



Source: Bloomberg

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