November 2024 | Market update

# Labour unveils £40 billion in tax increases

**Financial markets respond to major UK tax hikes, impacting investor sentiment and economic forecasts**

**UK markets wobble.** The pound fell and UK government bonds yields rose (meaning prices fell) after the Labour government delivered its first Budget in 14 years. The FTSE 100 also ticked lower before recovering. The Budget set out £40 billion in tax increases, including a rise in employer National Insurance contributions, higher Capital Gains Tax rates and the introduction of inheritance tax on pensions.

UK inflation fell to 1.7% in September – dipping below the Bank of England's target for the first time since 2021. The fall was larger than expected, cementing the chance of further rate cuts. The UK economy returned to growth in August with GDP increasing by 0.2% after flatlining in July and June. Easing inflation worries, combined with expectations of lower interest rates, have also helped boost UK consumer confidence.

**US stocks soar.** As Americans prepare to vote in the presidential election, Wall Street hit new highs, lifted by tech stocks and the release of upbeat US economic data. Uncertainty about the election and growing confidence in US economy have also helped drive bond yields higher. Markets fell at the end of the month due to some company earnings reports that were weaker than expected.

US inflation fell to 2.4% in September – the lowest 12-month increase since February 2021. It marks the sixth consecutive month of falls and raises hopes of another cut by the Federal Reserve in November.

US hiring in September proved far stronger than economists expected, with the economy adding 254,000 jobs. Meanwhile, unemployment fell 4.1% in September from 4.2% in August. Consumer demand remains resilient despite three years of inflationary pressures. Retail spending saw a 0.4% increase, following a modest 0.1% rise in August.

**ECB cuts rates.** European markets pushed higher after the European Central Bank (ECB) cut rates for the third time this year in a bid to reduce sluggish economic growth. Amid signs that inflation is declining across the 20-nation region, the ECB cut its key deposit rate by 0.25 percentage points to 3.25%, following a similar move to lower borrowing costs at its September meeting.

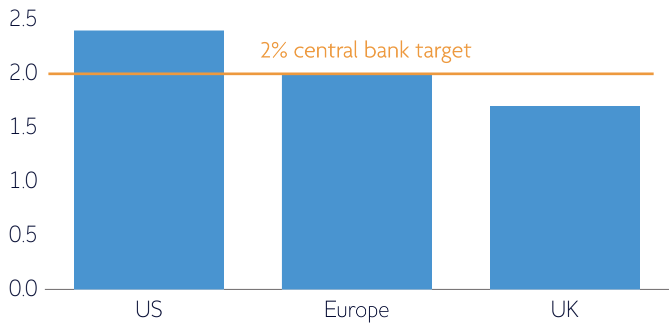
Average inflation fell to 1.8% in September, coming in below the ECB's 2% target. Core inflation rate, which excludes more volatile energy and prices, came in at 2.7%. The ECB's president, Christine Lagarde, said the fall in inflation had surprised the central bank and meant a cut was needed to ensure a soft landing for the economy.

**China's rally fizzles.** China's stock market rally faded after efforts by Beijing to stimulate the economy disappointed investors. The country posted its slowest economic growth in 18 months, as it struggles to boost its economy. GDP rose by 4.6% annually in the three months to the end of September. This was less than the previous quarter and below the government's 5% target.

Export growth slowed in September, while imports missed missing expectations. However, there was some good news after China reported better-than-expected retail sales and industrial production.

### Figure 1: Fading away

Inflation is now near or below the 2% target favoured by central banks in most developed regions.




Source Bloomberg

www.omnisinvestments.com




Approved by Omnis Investments on 1 November 2024