RBC Brewin Dolphin

Markets in a Minute

24 October 2023

Israel-Hamas war weighs on stock markets

Stock markets slid last week as investors grew increasingly concerned about the Israel-Hamas war.

In the US, the S&P 500 suffered its biggest weekly decline in a month, falling 3.4%. The Nasdaq tumbled 4.3% and nearly entered bear market territory as long-term US Treasury yields hit a new 16-year high.

Indices in Europe also fell, with the Stoxx 600, Germany's Dax and the FTSE 100 shedding 3.7%, 2.9% and 3.0%, respectively. Sticky inflation and concerns about interest rates staying higher for longer also weighed on investor sentiment.

In Asia, China's Shanghai Composite slid 3.0% and Hong Kong's Hang Seng fell 2.7% following reports that property developer Country Garden had missed its final deadline for a coupon payment on a dollar bond.

Last week's market update*

- FTSE 100: -2.99%
- S&P 500: -3.42%
- Dow: -2.52%
- Nasdaq: -4.31%
- Dax: -2.88%
- Hang Seng: -2.65%
- Shanghai Composite: -2.95%
- Nikkei 225: -1.26%
- Stoxx 600: -3.66%
- MSCI EM ex Asia: -2.43%

*Data from close of business Friday 13 October to close of business Friday 20 October.

Eurozone economic downturn accelerates

Stocks gave a mixed performance on Monday (23 October) ahead of a busy week of economic data and corporate earnings reports. The S&P 500 and the Dow ended the day in the red, whereas the Nasdaq rose 0.3% as investors awaited earnings reports from major technology stocks.

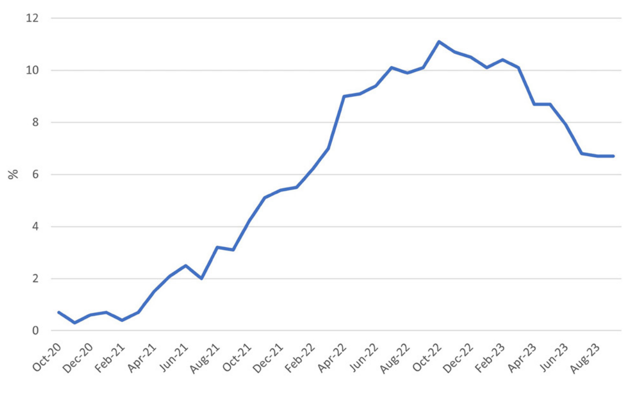
In economic news, the latest HCOB purchasing managers' index (PMI) for the eurozone showed the region's economic downturn accelerated in October, with the flash composite PMI output index declining to 46.5 from 47.2 in September. Excluding pandemic months, the fall in activity was the sharpest since March 2013. New orders fell at an accelerating rate and companies cut employment as a result, representing the first drop in headcounts since the lockdowns of early 2021.

In the UK, the S&P Global / CIPS flash composite output index measured 48.6 for October, up fractionally from 48.5 in September but below the 50.0 no-change mark for the third month running. Manufacturing output declined for the eighth-consecutive month. The FTSE 100 was down 0.7% at the start of trading on Tuesday.

UK inflation remains at 6.7% year-on-year

Last week saw the release of the latest UK consumer price index (CPI) report. Economists were expecting the year-on-year rate of inflation to decline in September. Instead, it held steady at 6.7%, triggering a sell-off in global bonds.

UK consumer price index (YoY % change)



Source: LSEG Datastream

The data from the Office for National Statistics (ONS) showed rising prices for motor fuel were the main factor preventing a decline in the annual inflation rate. However, core inflation (excluding energy, food, alcohol and tobacco) was also higher than expected at 6.1% year-on-year, down slightly from 6.2% in August. Services price inflation increased from 6.8% in August to 6.9% in September, driven by more expensive hotel rooms.

The Bank of England is still expected to keep interest rates on hold at its meeting on 2 November, but the data has added to uncertainty about the longer-term outlook.

Warm weather hits UK retail sales

The latest UK retail sales figures also proved disappointing. Figures from the ONS showed retail sales volumes fell by 0.9% in September compared with a month earlier, as unseasonably warm weather limited sales of colder weather clothing and consumers cut back on non-essential spending. The drop was much steeper than the 0.2% decline forecast by economists.

Elsewhere, GfK registered the biggest monthly fall in UK consumer confidence since 1994 (excluding the coronavirus pandemic) as consumers grew more concerned about the prospects for their personal finances and the wider economy. The latest gauge of consumer optimism dropped to a three-month low of -30 in October, down from September's reading of -21.

US retail sales stronger than expected

In stark contrast to the UK, retail sales in the US smashed estimates. Sales rose by 0.7% in October, roughly double the consensus forecast for 0.3% growth. Fuel sales were a key driver, rising by 0.9% as prices at the pump increased (US retail sales figures are based on receipts, not volumes, and are not adjusted for inflation). Over the preceding 12 months, sales rose 3.8%, roughly in line with consumer inflation.

Separate data showed industrial production increased by 0.3% in September, higher than the expected 0.1% increase.

China GDP grows by 4.9%

China's gross domestic product (GDP) grew 4.9% year-on-year in the third quarter, beating expectations for 4.5% growth. On a quarterly basis, GDP grew by 1.3%, improving from growth of just 0.5% in the second quarter, according to China's National Bureau of Statistics. Retail sales figures were also encouraging, with sales up 5.5% in September from a year earlier, improving from 4.6% growth in August. The data, however, was overshadowed by ongoing troubles in China's property market. New home prices fell in September for the third-consecutive month.

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