WEEKLY MARKET COMMENTARY

Week ending 1 March 2024

Welcome to our weekly market update. Our focus is on providing clear, concise insights into stock and bond market movements and the broader economic landscape.

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This week's highlights

- **Market response:** Markets showed resilience, rallying after PCE inflation data met expectations, highlighting global economic optimism.
- **Rate outlook:** Anticipation shifts towards a later start for the Fed's easing cycle, amid positive signs of slowing inflation.
- **US housing impact:** The Fed's signals of lower future rates prompted a decrease in mortgage rates, stabilising house prices despite higher interest rates.

Market review

Equity and bond markets experienced a slight dip at the beginning of the week as investors awaited the release of The Personal Consumption Expenditures Index (PCE) inflation data for January. Upon its release, which confirmed inflation rose as anticipated, markets, including the global equity index, saw a modest increase of 0.3%, with notable rises in the US and Japan. Germany's DAX index reached a new peak, lifted by data indicating a slowdown in inflation within Europe's largest economy. Meanwhile, Indian stocks surged following a report showing the Indian economy grew by 8.4% annualised in the October to December period, surpassing expectations.

With the corporate earnings season drawing to a close, investor focus shifted back to economic indicators and the anticipated direction of US interest rates. The PCE, the Federal Reserve's (Fed) preferred inflation measure, increased by 0.3% last month, marking an annual rise of 2.4% – the smallest in three years, which was a positive sign after data showed hikes in consumer and producer prices last week. The market now foresees the Fed beginning its easing cycle in June, a shift from the initial March prediction, reflecting optimism about sustained growth, reducing inflation, and decreasing interest rates, despite the prevailing uncertainty signalled by market reactions to new data.

Outlook

While central banks continue to keep monetary policy tight enough to drive inflation back towards the 2% target there is growing evidence of a continued softening in prices.

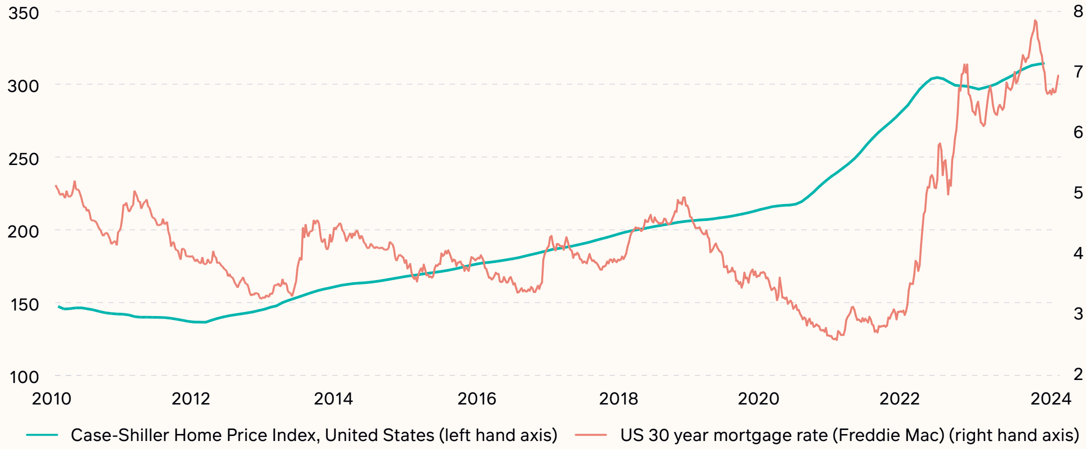
This has led focus to turn to the potential for central banks to ease policy rates to prevent further restriction to the economy and to achieve a stable global economy. While recent central bank meetings have suggested the next move in interest rates will be downwards, officials have been cautious to confirm when these cuts will be implemented, with a careful eye on data to ensure a sustainable route back to the inflation target.

Chart of the week

Tracking the shift: US mortgage rates and house price trends

Measures that try to gauge the health of consumers have remained strong in the face of higher interest rates, but the rise in US mortgage rates to 8% in October last year – the highest level since the early 2000's – was widely perceived to be one reason why the Fed pivoted toward signalling lower rates to come.

The accompanying chart illustrates the US house price index in green and 30-year mortgage rates in orange. The Fed's signalling alone, even before taking any action, has reduced the 30-year mortgage rate down to below 7%, leading to a stabilisation in house prices.



Source: LSEG Datastream and MAPM (M&G Investment Office).

What this means for you

The recent trends in equity and bond markets, alongside inflation data and central bank policies, highlight the complex and ever-changing nature of the financial landscape.

With markets reacting to the latest PCE inflation data and adjusting expectations for the Federal Reserve's interest rate policies, it's a reminder of the unpredictable nature of short-term market movements. Additionally, the adjustment in mortgage rates and its impact on the housing market underscores the significant influence of central bank communications on financial markets.

These developments reinforce the value of maintaining a long-term investment strategy. Rather than reacting to market swing, focusing on long-term goals ensures a more stable and potentially rewarding investment journey. By staying committed to a well-considered plan, investors can navigate through periods of volatility and uncertainty and leverage opportunities for growth as they arise, aligning with the broader economic trends and policy directions.

Need help?

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