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Market Movements

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Santander Asset Management UK are pleased to share the latest edition of 'Market Movements', which provides a review of financial markets covering the period since your last investment statement.

Market review

It was another turbulent three months for investors in shares. Despite the volatility, global stock markets ended the period higher than where they began.[1] Central banks' actions, mixed economic data and the elections in France and the UK were the major drivers of investment sentiment over the period.

Towards the end of May, global stock markets declined, as investors worried that interest rate cuts might be further delayed. This followed the release of the minutes from the May meeting of the US Federal Reserve (Fed), which revealed that policymakers were concerned about continuing inflation pressures, and some strong economic data releases in the US and Europe.

Shares then rose in June, driven by falling inflation and strong corporate results. However, there were some regional differences, with markets in the UK[1] and Europe[2] falling over the month due to election fears. France performed particularly poorly after President Macron announced a general election following the surge in votes for the far-right National Rally party in the European elections.[1] The political uncertainty resulted in investors selling shares. UK shares ended lower in June, as investors were wary of the upcoming July general election.

In terms of central bank actions during June, the European Central Bank (ECB) cut rates by 25 basis points (bps) – its first rate cut since 2019. The ECB's president, Christine Lagarde, said that the central bank's decision to cut rates was because of its increased confidence in the inflation outlook. This was despite annual inflation rising slightly across the eurozone in May to 2.6%, from 2.4% in April.[3] The Fed and the Bank of England (BoE) kept rates unchanged in June. Promisingly, annual consumer price inflation in the UK declined from 2.3% in April to 2.0% in May.[3]

In July, global stock markets ended slightly higher over the month. Investors reacted positively to statements from both Fed Chair Jerome Powell and ECB President Lagarde. However, US stocks fell back towards the end of July, after disappointing earnings releases from Alphabet and Tesla.[1] This affected the technology-focused NASDAQ Composite Index, which ended the month lower.[1] In France, shares were volatile over the month, ending lower, after the surprise election win for the left-wing party New Popular Front. In the UK, the widely expected win for the Labour Party had a positive effect on the performance of both the large-cap FTSE 100 Index and the small and mid-cap FTSE 250 Index.[1]

The Fed kept rates unchanged in July, but Chairman Jerome Powell said rate cuts would likely come in September. He also noted the progress made on inflation – as annual CPI rose by 3% in the 12 months to June 2024, a decline from 3.3% in May.[3] In Europe, the ECB held rates, with President Lagarde expressing that the ECB's council members were unanimous in their decision. However, she said that the bank's next decision, to come in September, was 'wide open'. The BoE did not meet in July, but investors expected the central bank to cut rates at its meeting in August. This resulted in UK shares rising over the month.

Then in late July and into early August, global stock markets fell drastically on the release of unexpectedly weak US employment data. For July, the manufacturing sector contracted for the fourth consecutive month[3]; the jobs report was relatively weak, with 114,000 jobs added, below the forecast of 175,000[3]; and the unemployment rate rose to 4.3%, the highest level since October 2021[3]. This resulted in the S&P 500 and the NASDAQ Composite both plummeting at the beginning of August. In the UK, the FTSE 100 also ended the week lower. However, there was more positive sentiment regarding interest rates. The BoE lowered its Bank Rate by 25 bps to 5% during its August meeting, which was its first rate cut in more than four years.

After this drop in global stock market performance, shares recovered steadily to the end of the period, as investors grew less concerned about the likelihood of a US recession after the release of more encouraging economic data. While expectations of a Fed rate cut in September remain strong, investors are now split on whether the Fed will opt for a 50 or 25 bps reduction.

The prices of developed market government bonds began to recover over the period. The yield on 10-year Gilts (UK government bonds) fell, meaning prices of the bonds rose.[3] In the US, 10-year Treasury yields also fell.[3] The yields on German 10-year government bonds also ended the period marginally lower.[3] Finally, it is worth mentioning that the Bank of Japan raised interest rates in late July and announced plans to reduce its monthly bond purchases.[1]

Note: Data as at 19 August 2024.

[1]Financial Times, 19 August 2024
[2]Yahoo Finance, 19 August 2024
[3]Trading Economics, 19 August 2024

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