

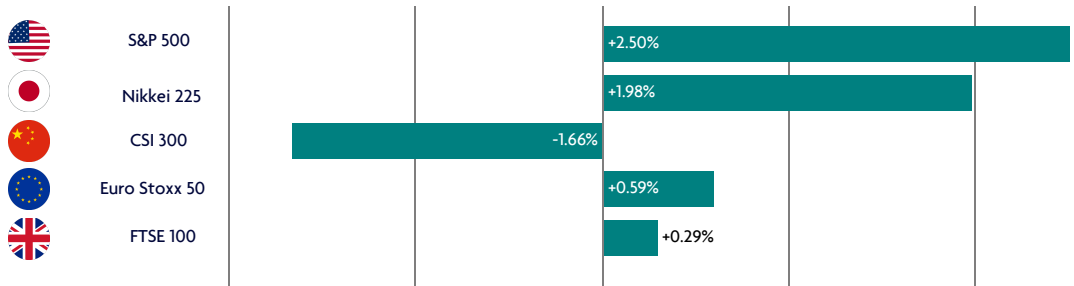
# Weekly Market Update

18 December 2023

A strong week for global stock markets with most major markets rising, apart from China. It was a busy week with three major central bank meetings in the US, UK and Europe. Interest rates were held at current levels again, leading investors to strengthen views that rate cuts will begin in the second half of 2024.



## Market Monitor (%): How did major stock markets perform last week?



## Market Update:

In the UK, the FTSE 100 closed the week in positive territory. The Bank of England kept interest rates at 5.25% for the third month running, as expected by investors. However, central bankers reiterated their willingness to increase rates again if evidence of more persistent inflation were to emerge. Expectations for inflation however are for it to continue its trajectory lower and the market continue to expect interest rate cuts in the latter part of 2024. Official data showed that the UK economy shrank in October. This furthers the case for interest rates to be reduced as high rates are beginning to harm economic growth.



US stocks continued their rally last week, gaining over 7 consecutive weeks, the longest streak for the S&P 500 index since 2017 and a new to an all-time record index value. Smaller US companies also outperformed, finally strengthening after a challenging 18 months. Trade volumes in the US stock market also hit new highs, with daily share trading hitting its highest level of 2023. The primary factor driving sentiment appeared to be a more benign inflation environment. Tuesday's CPI report saw inflation meet market expectations, its lowest level since January 2021. Long-term US treasury yields fell sharply (prices rose) on the inflation data and no change in interest rates at the latest central bank meeting.



European stocks ended the week higher as financial markets appeared to be increasingly expect the European Central Bank (ECB) to cut interest rates in 2024. The ECB left interest rates unchanged at its last meeting of the year last week. The bank called for inflation to slow to just below its 2% set target by 2026, a move widely seen as paving the way for a reduction in interest rates.



Japanese markets gained last week. Shares were supported by the US Fed holding rates steady and projecting more aggressive rate cuts in 2023. However, strength in the Japanese Yen posed a headwind for Japan's exporters as the strong currency makes exporting more expensive. Yields on Japanese bonds fell (prices rose) as investors started to speculate that the Bank of Japan (Central bank) will soon end its negative interest rate policy.



Chinese equities declined as persistent deflationary pressures (driven by falling real estate and consumer goods prices) weighed on the economic outlook. Despite a rally in global stock markets, Chinese equities fell again. Deflation is concerning for China since economists worry it could unleash a downward spiral of economic activity. Other data from November showed growing industrial production and rising retail sales.



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