January 2024 | Market update

# Markets end the year on a positive note

## Optimism that interest rate rises are finally over have boosted stock and bond markets

US stocks climbed higher on news the US Federal Reserve (Fed) was keeping interest rates unchanged for a third consecutive meeting. The Fed held its benchmark interest rate in a range of 5.25% to 5.50%, the highest in 22 years. Bonds also rallied after the US central bank signalled it could cut rates three times in 2024 if inflation continues to fall.

US inflation edged down to 3.1% in November, as the cost of living crisis in America continues to ease. However, core inflation – which strips out food and energy – remains stubbornly high at 4%. The US economy remains robust in the face of elevated inflation and high borrowing costs, with GDP rising by 5.2% in the third quarter.

US employers added 199,000 jobs in November and unemployment fell, bolstering hopes of a soft landing for the economy, where recession is avoided. The strong labour market has helped boost consumer spending, although some retailers reported weaker sales.

### Bank of England holds rates

Stocks rose after the Bank of England held interest rates at a 15-year high for the third time in a row at 5.25% in December. Inflation continued to fall, dropping to 3.9% in November from 4.6% the previous month.

UK wage growth fell from 7.8% to 7.3% in the three months to October, while the number of vacancies fell by 45,000 as the labour market continued to cool. High interest rates and inflation continue to weigh on consumers and businesses, with growth flatlining in the three months to October. The UK economy contracted by 0.3% in October, with services, manufacturing and construction all shrinking.

In November, house prices rose for the second consecutive month, rising 0.5% according to Halifax, suggesting the market is picking up. However, prices are still lower than a year ago and are likely to remain under pressure. There are also signs that mortgage rates are beginning to ease after the highs seen during the summer.

### Eurozone inflation slows

European stocks rose, bolstered by optimism that central banks could cut interest rates. Inflation across the eurozone remained at 2.4% in November amid growing concern about the strength of its economies, following the sharpest rise in interest rates since the creation of the euro.

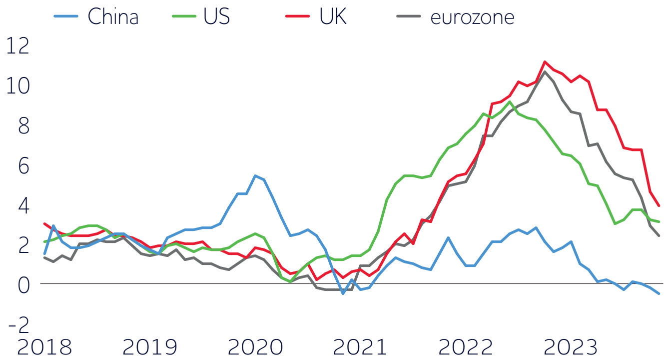
The region's headline inflation rate has cooled from its peak of 10.6% in October 2022, with inflation in the largest economies, Germany and France, now at 2.3% and 3.4% respectively. With inflation slowing, the European Central Bank (ECB) held interest rates at 4% for the second time in a row.

### China is suffering from deflation

China's deflation situation is worsening, with consumer prices falling 0.5% in November, the sharpest decline in three years. The troubles add to a raft of woes for the world's second-largest economy, including a property crisis, weak trade data and a slowing recovery from three years of Covid lockdowns. Consumer demand struggled to rebound in 2023, and the 5% annual GDP growth target is the lowest in decades.

Figure 1: Inflation is fading around the world

Monthly changes in consumer price indices (%)




Source: Bloomberg.

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