Shares gain as US rates rise

Key takeaways

US stock markets took last week's interest-rate hike in their stride. Meanwhile, the Bank of England kept rates on hold while halting its programme of gilt sales for now.

Federal Reserve increases US interest rates

Last Wednesday the Federal Reserve (Fed) raised US interest rates for the first time since 2023. The 0.25% hike, to a range of 3.75% to 4.00%, followed a unanimous decision by the Federal Open Market Committee with the Fed's new chair, Kevin Warsh, signalling further hikes lay ahead this year. The move confirmed Mr Warsh's 'hawkish' credentials – meaning he favours fighting inflation with increased interest rates – while providing a much-needed credibility boost for the Fed at a time when the White House continues to call for lower interest rates.

Markets currently expect just three more US rate hikes, which would make it the shallowest hiking cycle in history. The news saw US government bonds make short-lived gains as inflation expectations fell, while US shares were quick to rebound suggesting the strength of corporate earnings remains sufficient to offset interest-rate concerns.

UK interest rates kept on hold

Despite surging energy prices fuelling inflation fears, the Bank of England held UK interest rates steady at 3.75% last Thursday, but signalled that it remains poised to raise rates in response to the Middle East crisis. The decision came a day after UK CPI (Consumer Price Index) inflation hit a five-month high of 3.1% for August, with forecasts suggesting it could pass 4% in 2027.

The UK's weak labour market, and little evidence that rising energy costs are impacting wage growth or prices, has given the central bank some breathing room for now. It's one of the few not to have increased rates amid the global rate-hiking cycle now underway. Europe has raised rates twice since June, the US has now commenced hiking while the Bank of Japan last week raised rates to a 31-year high.

Bank of England sparks gilt rally

Last week's rate hold from the Bank of England was accompanied by news that it's to revamp its current quantitative tightening programme – namely the practice of selling the government bonds (gilts) it acquired in the years following the global financial crisis.

By curbing its sales of longer-dated UK gilts it eased investor concerns that it was increasing the supply on the market and so adding to the pressure on gilt yields (yields move inversely to prices) which were already the highest this century.

The new scheme will see the Bank retain £120bn, and pause further auctions for six months while selling down its remaining holdings at a more genteel, fixed pace over the next eight years. The news saw the yield on 30-year gilts fall to 5.74% in the best day for gilts since May of this year.

For more in-depth commentary from our investment team, please see our latest Investment Views article and Quarterly Outlook video.

Market moves

US shares led the field thanks to retreating oil prices and renewed interest in technology stocks.

Emerging market shares made gains while Japanese shares were flat. UK shares were marginally ahead while those in Europe retreated.

UK government bonds enjoyed a strong rally while US government bonds retreated. Gold rose slightly but is still down in September.

What to look out for this week

Today is the start of the UN General Assembly in New York. This week also promises a series of closely-watched speeches from Federal Reserve speakers.

The latest round of 'flash' global Purchasing Managers Index (PMI) data for major economies is due in the latter stages of the week.

Tuesday brings UK public sector borrowing numbers while Thursday will see President Trump host China's President Xi Jinping at the White House.

Friday brings the latest US durable goods orders numbers.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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