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WEEKLY BULLETIN

Investors wobble on AI: bubble or blip?

Key takeaways

Governor Bailey cast the deciding vote at the Bank of England, while politicians crossed the aisle to make a deal in the US Senate. But market news was dominated by a wobble about AI...

UK interest rates held steady… but only just

The Bank of England's committee of decisionmakers opted to hold interest rates steady last week, keeping their benchmark rate at 4%. Markets expected this, but the narrowness of the committee's vote was perhaps more surprising: the members voted 4 aside to hold or cut rates, with the governor of the bank – Andrew Bailey – casting the deciding vote to keep rates at their current levels. Governor Bailey noted that for further rate cuts to happen, he would need to see inflation continue to fall back. Our own house view remains that the Bank may need to cut rates by more than the market expects, in order to support growth in the UK economy.

Will the US government reopen for business?

The end of an historically long US government shutdown could be in sight. As a reminder, when Congress failed to pass a funding bill in early October, the government officially went into 'shutdown'. This meant furloughing many government employees and reducing key government-run services to very limited levels. As we write, the US government shutdown has lasted for a record-breaking 40 days, but a deal in the US Senate (the upper house of Congress) on Sunday night could pave the way for a short-term solution. The deal includes an agreement to extend healthcare subsidies due to expire this year, but also needs to pass in the House of Representatives (lower house of Congress), where a vote is expected on Wednesday. We should note that this is a short-term funding deal, and only funds the government until the end of January. Watch this space for developments.

Market confidence in AI is tested

Investors have been enjoying their love affair with AI-related companies, but the course of true love never did run smooth. Last week, shares in technology companies were hit by a wave of nerves, as investors worried about the high valuations of tech share prices and the potential for an AI market bubble. The tech sector dominates the US stock market, which itself dominates global stock markets. Tech firms account for nearly half of the US market's most common benchmark, the S&P 500 Index, if we also include giant tech-related businesses like Alphabet (Google's parent company), Meta (Facebook's parent company), electric car manufacturer Tesla and online giant Amazon – none of which strictly fall into the tech category for market analysts. No surprise, then, that a little nervousness around AI can go a long way when it comes to US market performance.

Market moves

It was a nervy week for stock markets, with share prices dropping back in most major regional markets. They have begun the new week more strongly, reacting to the potential end of the US government shutdown.

Bond prices were also broadly lower (bond yields, which move in the opposite direction to bond prices, were slightly higher). UK government bonds calmly received the news of an interest rate cut from the Bank of England.

After some apparent consolidation (prices falling a little lower), the gold price appeared to stabilise around the $4000 per ounce mark.

What to look out for this week

This week will play host to a range of economic news in the UK and EU, including unemployment and economic growth updates. UK inflation data will also be available.

US politicians will be under the spotlight, as Democrats in the House of Representatives decide on their reaction to this weekend's Senate bill.

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

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Important Information