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Wealth & Asset Management

WEEKLY BULLETIN

AI worries overshadow US rate cut

Key takeaways

Despite a 0.25% interest rate cut from the Federal Reserve (Fed), both US shares and US government bonds retreated last week as disappointing earnings news helped to temper AI high spirits. Although stock markets in Japan, Europe and Asia prospered, gold once more outperformed all comers.

US stocks retreat on AI worries

Despite the Fed delivering a much-anticipated cut to US interest rates last week, the news provided only a brief boost to US stock markets. Although the S&P 500 Index of leading US companies hit a new all-time high, disappointing earning news from the business software giant Oracle and the chip maker Broadcom, both stocks at the centre of the ongoing AI goldrush, saw investors rotate away from the AI sphere into cyclical (meaning companies exposed to the economic cycle) and blue-chip stocks. This delivered gains for more defensive US companies but losses for tech-heavy indices such as the S&P and Nasdaq.

The final cut?

Last week's quarter point cut, taking US interest rates to a range of 3.5% to 3.75%, was the third consecutive cut by the Fed and could well be the last of Jerome Powell's tenure as chair of the US central bank. Having served two terms, Powell has presided over 11 US interest rate increases to quell inflation, and six rate cuts, starting in September 2024.

The so-called 'dot plot' of Fed committee members' projections, released after the rate announcement, suggested only one likely US interest rate cut in 2026. It also emphasised that a first quarter cut was highly unlikely meaning that a new chair, likely a Trump-leaning candidate, will oversee the next change to US interest rates. Mr Powell's term ends in May 2026.

Although bond prices made initial gains (meaning their yields fell) due to the rate cut, subsequent Fed comments as to the likelihood of further cuts saw bonds sell-off on Friday to deliver minor losses for the week.

Anaemic UK economic retreats again

October's UK GDP data showed a second consecutive month of decline, meaning that the UK economy has seen no growth since June. Britain's economy shrank by 0.1% in both September and October, due to a hobbled auto industry and a shrinking services sector, respectively.

We expect November's GDP figure to be still more bleak as it's likely to feature the consumer and business 'paralysis' that accompanied the run up to the contentious UK Budget. The news means that a rate cut from the Bank of England this Wednesday is all but assured.

Market moves

The S&P and Nasdaq indices suffered during the week, led by AI-related stocks, as investors sought more defensive companies. Stock markets in Japan, Europe and Asia outperformed.

Gold powered ahead 2.4% driven by clear safe-haven demand.

Oil prices weakened as the US rate cut was overshadowed by geopolitical concerns and broader worries of oversupply.

What to look out for this week

The central banks of the UK, Europe and Japan all make rate decisions this week. After a period of concerted, synchronised global monetary policy the picture is now one of increasing divergence between central banks. While the Bank of England is expected to cut rates this week, the European Central Bank (ECB) is set to hold, while Japan is expected to raise interest rates.

This week will see markets digest a slew of delayed US data including key job reports, housing and purchasing manager data, known as PMIs. US inflation and GDP data is due at the end of the week.

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

marketing.hwam@handelsbanken.co.uk

Important Information