

Less pressure to raise rates

Key takeaways

Benign economic data reduces the pressure for imminent interest rate increases, driving global stock markets to end the week higher.

Rate hike expectations reduce

Investors were in a risk-on mood last week as they decided that pressure for an interest rate rise had eased. Speaking at the annual central bank forum in Sintra, Portugal, the new US Federal Reserve (Fed) Chair Warsh noted that “inflation risks have come down” suggesting no urgency to increase rates at the Fed’s July meeting. US economic data was also supportive: manufacturing conditions, according to the June ISM and PMI indices (indices of economic activity), remained at acceptable levels, while consumer confidence rose slightly. US non-farm payrolls cooled but remained in ‘Goldilocks’ territory - not too hot or too cold. Payrolls rose much less than expected at 57,000 with the prior two months’ data revised down by a total of 74,000. The Fed will be watching the payrolls data closely: if it continues to cool, it can help to bring down inflation, however, weakening too much may require action to boost the economy. US unemployment fell to 4.2% and growth in average hourly earnings remained around 3.5% year-on-year. Overall, it appears the US jobs market is in better shape than it was last year, despite economic uncertainty, and is not overheating. This takes some pressure off the Fed for an imminent rate hike for the time being.

Surging AI costs

However, there could be a new complication in the battle to reduce inflation with surging technology costs from the AI boom. In the past week, Apple and Microsoft raised prices on their flagship hardware to counteract higher memory and storage chips costs. An AI-related boost could also be a threat to Eurozone inflation, although core inflation in the region fell to 2.4% year-on-year in June reducing pressure on the European Central Bank for an interest rate hike in July. Lower oil prices over the past month appeared to support sentiment raising hopes that the economic fallout of the Middle East conflict on growth and inflation may be more benign than originally feared.

Fragile truce

Despite a rocky ride, the interim US/Iran peace deal appears to be holding together with the flow of ships through the Strait of Hormuz remaining up from the low point over March to June. This in turn has seen oil prices fall to slightly above where they were before the conflict began. However, scope for a further fall in the near term may be limited as the flow of ships through the Strait remains depressed, the peace deal fragile given Iran’s desire to control the Strait, and Iran’s nuclear programme and the Israel/Hezbollah conflict posing a threat. Prices at the pump in the US and in other countries remain elevated and it is unclear whether the June inflation figures, due for release later this month, will reflect the latest negotiations.

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



Market moves

Global shares saw strong gains over the last week, as inflation fears subsided and slower US payrolls removed some pressure for a US interest rate hike.

Despite reduced inflation fears, bond yields rose slightly (prices fell).

Oil (Brent Crude) is trading around \$71 a barrel and looks to be stabilising around this figure having declined approximately 40% from the end of April.

Gold rose as the US dollar fell.

What to look out for this week

A key focus this week will be the release of the minutes of the recent meeting of the US Federal Reserve, the first since the new chair, Kevin Warsh, took office. The European Central Bank will also release its June meeting account.

Midweek will see a raft of economic activity data from Germany, including factory orders (today), industrial production (Tuesday) and trade (Thursday). These will be closely watched for evidence that the government’s significant fiscal spending and reform agenda are working.

Elsewhere in China, inflation data for June is due on Thursday.



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

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