WEEKLY MARKET COMMENTARY

Week ending 26 April 2024

Welcome to our weekly market update. Our focus is on providing clear, concise insights into stock and bond market movements and the broader economic landscape.

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This week's highlights

- **Early US earning figures encouraging:** Technology companies continue to outperform sales forecasts.
- **Artificial Intelligence driving of stock performance – up and down:** Meta suffers as investors believe they're behind in AI race, while others thrive.
- **Japanese Yen falls:** Lower than expected inflation drives down currency to reach levels not seen since the early nineties.

Market review

We continued to see volatile market conditions across the week, with inflation and growth levels remaining higher than forecast. However, in more positive signs, good corporate earning figures helped markets climb, ending the week higher than they started.

So far, over 200 companies in the S&P 500 have reported their earning figures, which is painting an encouraging picture. Big technology companies such as Alphabet and Microsoft continue to beat forecasts, where it appears their investment in Artificial Intelligence (AI) is seemingly paying off. Even though Tesla's earning results weren't positive, their stock rallied after announcing it would continue to look into manufacturing a cheaper entry level, mass market vehicle. Meta was one company that suffered this week, as slowing sales coupled with a commitment to spend more on AI led investors to think that the company was behind the curve in the AI race. Boeing was another that didn't fare well.

In wider news, the Bank of Japan remain firm on their tightening cycle with inflation at 1.8% for the year to April. This was below expectations and prior readings. This led to the Japanese Yen reducing in value even further against the US Dollar, to levels not seen since the early nineties. In the US the inflation battle is far from won, with evidence of sticky prices casting doubt on the central banks' ability to begin rate cuts later this year. Personal Consumption Expenditure (PCE) inflation rose to 3.7% which was ahead of expectations, despite Gross Domestic Product (GDP) being reported lower than the previous reading. All of this led to a year-to-date high in US yields with the 10-year treasury bond at 4.7%.

Outlook

Central banks may be able to ease monetary policy in the second half of 2024 but employment, activity and inflation data over the next few months will be critical to the evolution of their thinking. There's continuing encouragement for the US economy, but other regions, including the Eurozone, face more challenging conditions. There is still the potential for rate cutting cycles later in the year, but geopolitical developments could hinder investor sentiment and central bank actions. This might also have a knock-on effect on oil prices and inflation.

Chart of the week

FTSE 100 index reaches an all-time high this week

This week saw the UK's FTSE* 100 index hit all-time highs. A number of factors contributed to this, including falling UK Sterling rates versus the US Dollar which boosts multi-national companies overseas earnings, higher interest rates which gives the banking sector better net-interest margins and higher oil prices, which help increase energy producer margins. It's important to remember that we can't predict the future and past performance isn't a guide to future performance.

Source: LSEG Datastream and MAPM (M&G Investment Office), 25.04.24.
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What this means for you

Again, this week we've seen many different elements impact market sentiment and performance. This time it's earning figures in the US and inflation rate in Japan making the news. Those companies in the US that have invested heavily in AI appear to be seeing their spend pay off. But the lower than expected inflation Japan, having a detrimental impact on the value of their currency against the US Dollar. Evidence remains clear of the importance of maintaining a well-diversified, long-term thinking to your investment approach rather than reacting to market swings. By staying committed to carefully considered plans, investors can navigate through periods of volatility and uncertainty.

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