December 2023 | Market update

Stocks and bonds rally in November

Many economists now believe that major central banks have come to the end of their hiking cycles

Stocks and bonds rallied in November on hopes central banks have finally reached the end of their hiking cycles. Inflation is falling on both sides of the Atlantic and analysts are generally expecting the US to avoid recession with a so-called soft landing. The US Federal Reserve (Fed) announced it would keep interest rates between 5.25% and 5.5%, and has now left them unchanged for two meetings in a row.

US stocks and bonds jumped after inflation fell by more than expected to 3.2% in October, the first decline in four months. The employment market cooled by more than expected, with employers adding just 150,000 new jobs as the economy slowed under the weight of strikes and high interest rates.

UK shares rise despite stagnant economy

The UK stock market climbed after the inflation rate dropped sharply in October to 4.6% – its lowest level in two years. The Bank of England left interest rates unchanged at 5.25% for the second time in a row – the highest since the financial crisis. While inflation is still more than double the bank's 2% target, the news has eased concerns about further interest rate hikes this year.

Despite UK economic growth flatlining, unemployment in the three months to September remained steady at 4.2%. There are also signs that the cost of living crisis may be easing with regular pay now outstripping price rises. There were few surprises in the government's Autumn Statement, with markets remaining largely unmoved. Chancellor Jeremy Hunt announced tax cuts for workers and gave businesses permanent investment incentives.

China slips into deflation

Official figures show China has slipped back into deflation, highlighting how demand remains weak despite efforts to stimulate spending. The country's factory activity contracted for the second month in a row in November despite the government's efforts to boost growth. Retail sales and industrial production grew faster than expected, but the property sector continues to drag on growth.

The Chinese government has stepped up its stimulus by lowering key interest rates, freeing up more cash in the banking system and providing support for the property market. Despite these challenges, the International Monetary Fund (IMF) upgraded its forecast for China's GDP growth to 5.4%, citing stronger support from policymakers.

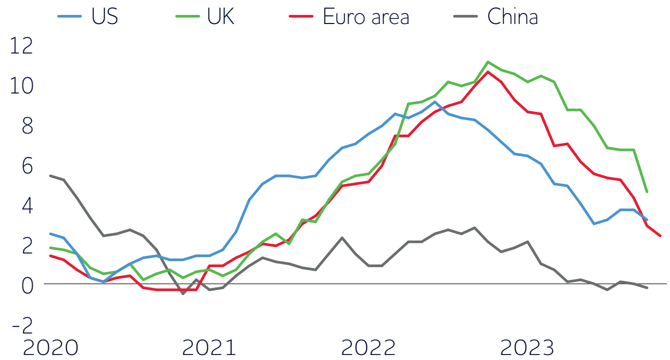
Europe's economy remains weak

Meanwhile, European stocks moved higher as momentum in markets picked up on the back of robust company earnings. Euro area inflation tumbled to 2.4% in November from 2.9% in October, owing largely to falling energy prices. The region's economy risks slipping into recession after data showed that output shrank slightly in the third quarter.

Recent survey data shows that activity in the euro area's manufacturing and services sectors has fallen, with demand for goods and services set to weaken further. Even if the region avoids recession, economists believe a recovery could still be some way off.

Figure 1: Fading inflation (%)

The pace of consumer price rises around the world has continued to fall over the past year, taking the pressure off central banks.



Source: Bloomberg.

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