



Weekly Investment Update

20th December 2024

News Headlines

Federal Reserve Rate Decision – In the US, the Federal Reserve (Fed) delivered an expected 0.25% rate cut on Wednesday, lowering the fed funds rate to 4.25%-4.50%. However, markets were caught off guard by the Fed's hawkish comments, with Fed Chair Jerome Powell emphasising the need for more progress on inflation before further rate cuts are made. Projections now suggest only 25 to 50 basis points of cuts in 2025, down from the previously anticipated 100 basis points, alongside an upward revision of inflation expectations to 2.5% in 2025 (up from 2.1%). The announcement triggered negative market reactions, with US equities seeing sharp declines. Treasury yields also spiked, with the 10-year yield reaching highs not seen since May.

Potential US Government Shutdown – The US government is close to a shutdown this week due to disagreements over funding legislation. A Trump-backed proposal to extend funding was rejected in the House after opposition from both Democrats and some Republicans. Key sticking points included the lack of spending cuts and broader policy disputes. Congress is now trying to pass a temporary funding bill to prevent disruption to federal services, with the deadline for passing legislation set at the end of today.

Bank of England Rate Decision – This week, the Bank of England (BoE) held its main interest rate at 4.75%, reflecting a cautious stance as inflationary pressures persist. The decision, supported by a majority of the Monetary Policy Committee (MPC), comes despite a growing split among members, with three out of nine advocating for a rate cut to 4.5%. This decision followed UK inflation rising to 2.6% in November, an eight-month high, driven by high service costs and rising fuel prices. With inflation moving further away from the 2% target and amid slower economic growth and rising taxes, markets now anticipate fewer rate cuts in 2025 from the central bank, as shown in the Chart of the Week.

Market Summary

Global Equities – Global equities experienced a challenging week as markets reacted to the Federal Reserve's hawkish rate cut and elevated inflation concerns. In the US, equities posted sharp declines amid heightened rate expectations and concerns over slowing future monetary easing. European markets followed suit, facing renewed pressure as investors reassessed risk amid rising bond yields. The UK market also struggled following higher inflation, slow economic growth and gilt yields nearing multi-year highs. Meanwhile, Asian equities saw losses, influenced by the Fed's stance and a weaker yen following the Bank of Japan's steady policy decision.

Commodities – Commodity prices experienced generally negative movements this week, as the US dollar strengthened significantly. Oil prices declined, reflecting uncertainty around additional stimulus measures in China and indications of weakening fuel demand in the US. A potential US government shutdown also affected oil markets. Gold prices also fell this week, as the US Dollar strengthened.

Fixed Income – Fixed income markets faced significant pressure this week as the Federal Reserve's hawkish rate cut prompted a repricing of expectations. In the US, Treasury yields climbed sharply across the curve, with the 10-year yield reaching its highest level since May. European sovereign bonds followed the trend, and UK gilts also saw yields increase, as inflationary pressures persisted, and stagflation concerns weighed on sentiment.

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Chart of the Week

Markets See Two BOE Cuts in 2025 Market-implied change in key rate next year



Source: Bloomberg – Markets See Two BOE Cuts in 2025

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
<ul style="list-style-type: none"> - UK GDP (QoQ) - UK GDP (YoY) 			<ul style="list-style-type: none"> - US Initial Jobless Claims 	

Market Performance – 20/12/2024

Global Equity Market Indices	2024 YTD %*	2023 %*	2022 %*	2021 %*	2020 %*	2019 %*
FTSE 100	8.67%	7.68%	4.57%	18.40%	-11.44%	17.23%
S&P 500	24.65%	26.26%	-18.13%	28.68%	18.39%	31.47%
STOXX 600	9.41%	16.63%	-9.88%	25.82%	-1.44%	27.94%
Nikkei 225	17.87%	31.01%	-7.35%	6.66%	18.28%	20.73%
Hang Seng	21.02%	-10.46%	-11.48%	-12.64%	-1.00%	15.05%
Fixed Income	Yield %					
UK 10 Year Gilt	4.59%					
US 10 Year Treasury	4.55%					
Commodities	2024 YTD %**	2023 %**	2022 %**	2021 %**	2020 %**	2019 %**
Gold	26.35%	13.10%	-0.28%	-3.64%	25.12%	18.31%
Currency						
GBP/USD	1.25 (20/12/2024)					
GBP/EUR	1.21 (20/12/2024)					

Source: FE Analytics/ Bloomberg

*Total Return/Local currency **Spot Return USD

Past Performance is no guide to future performance and the value of investment and income from them can fall as well as rise

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