Wealth Management
Weekly Market Update

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Market Update

Last week, global markets fell -2.4% as investors began to price in further rate hikes from the Federal Reserve. In the US, an increase of 497,000 jobs in June, as stated in the ADP National Employment Report, highlighted the continued resilience of the US labour market in the face of tightening monetary policy, raising market interest rate expectations and sparking a sell-off in equities, which fell -2.1%. UK stocks were also impacted, falling -3.6%. In an attempt to increase domestic investment, the UK government are in talks with insurers about a multi-billion-pound agreement to invest in start-ups and infrastructure projects via managed pension plans. The European stock market also saw a decline of -3.6%, as European manufacturing output, new orders and prices all fell at notable rates according to S&P Global PMI data released in June. Last week, China also declared restrictions on its exports of gallium and germanium, materials critical to the manufacture of semiconductor technologies, retaliating to the restrictions imposed on Chinese technologies by Western economies, particularly the US. Emerging markets subsequently fell, down -1.7% over the week. In contrast, oil prices also rose +3.5% despite rising rate expectations, as Saudi Arabia attempt to stabilise oil prices, announcing an extension of the one million barrel a day production cut by an extra month, now anticipated to end in August. Alongside this, Russia also announced a 500,000 barrel-per-day cut to their oil exports starting next month. Gold prices fell slightly, just -0.7%, to finish the week at $1924.1/oz.

UK Stocks	US Stocks	Europe Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -3.6%	▼ -2.1%	▼ -3.6%	▼ -2.4%	▼ -1.7%	▼ -1.0%	▼ -2.0%	▲ +1.1%

all returns in GBP to Friday close

Macro News

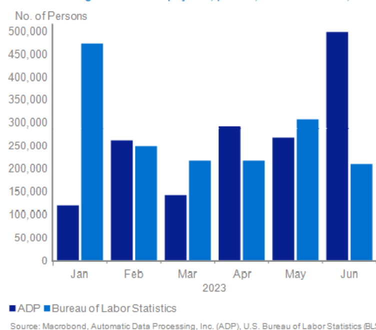
- US jobs data releases on Thursday last week rattled equity markets. The ADP employment figures highlighted the resilience of the US labour market despite the wave of monetary tightening imposed by the Federal Reserve over the last year. The +497,000 jobs added to the economy in June was primarily due to a sizeable contribution from the Leisure & hospitality sector, which employed an additional +232,000 workers. This labour market tightness will be of concern to the Federal Reserve, who will see this as a sign that inflation is becoming increasingly embedded. However, not all sectors demonstrated strong employment growth in June. A decline in manufacturing was also observed, with manufacturing payrolls falling by -42,000.
- However, evidence of increasing tightness in the US labour market was not replicated in the total non-farms payroll report issued by the Bureau of Labor Statistics. The +209,000 jobs added in June was less than analysts anticipated. However, this is unlikely to dissuade the Federal Reserve from further interest rate hikes.

The Week Ahead

- As a critical influencer of US monetary policy, all eyes will be on the US CPI report released on Wednesday this week for further evidence of inflation becoming increasingly embedded. Analysts anticipate core inflation to decrease to 5% in June, but an upside surprise may exacerbate the market sell-off seen last week.

Week in Charts

Labour markets are tight - but how tight?
1-month change in non-farm payrolls, private, ADP & US BLS, SA.



Both US job reports this week highlight that the US job market remains tight despite tightening monetary policy. Despite a disparity in the number of jobs gained, it is evident that the US labour market is showing little signs of cooling thus far.

A weakening global demand picture
S&P Global composite PMIs, June, month-on-month change

Worsening S&P Global PMI data in June is consistent with the weakening of the global economy. However, there are disparities between sectors. Manufacturing data has been extraordinarily weak, whilst services have remained resilient despite looming concerns of recession.

View From the Desk

Last Thursday, markets sold off sharply as ADP, a US company that processes private payrolls, announced a strong US employment number. Traders felt that a strong US labour market will enable the Fed to carry on with its threats to further tighten interest rates and sharply reduced equity positions. The US 10y-2y yield curve inverter significantly on Thursday, to tighten again on Friday, after the bigger Non-Farm Payrolls number came in weaker than feared.

Or so the narrative goes.

In my nearly eighteen years of analysing financial markets, I can hardly remember equity indices dropping significantly on an ADP number. The correlation between the ADP and the S&P 500 since 1970 is practically zero. The indicator is usually considered the lesser brother of the all-important Non-Farm Payrolls numbers that usually come out a couple of days later. Although the two should be correlated, they are in fact not. Only 2% of the movement of the Non-Farm Payrolls can be explained by the movement of the ADP. Matter closed, and a hint that 'Greek Statistics' may extend much more broadly than the confines of a small Mediterranean country.

We are faced with high and sticky core/services inflation, which will be difficult to get down to 2% from where it is today. We are also faced with significant policy divergence, the consequences of which remain unknown. The US, which was very aggressive in moving against rates, will have an easier time getting back to target. The EU, which benefits from higher unemployment and thus lower services inflation pressures, will follow by a few months, simply because it was the last to raise rates.

The UK, despite the early reaction by the BoE, is plagued by already slower growth and very high inflation as a result of the tight labour and housing market, as well as the efficiency by which each cohort passes on the inflation cost to another. The oligopolistic structure in banks (five banks have 65% of the market) and supermarkets (five supermarkets have 75% of the market), is adding to the pressures on consumers. The path will be much more difficult, and will likely result in a recession. Bloomberg forecasts a shallow recession, but it could turn out to be more severe than that.

Central banks, and the Fed especially, remain fixed. They keep telling us, in every way possible, that inflation is too high, growth is too persistent and they are not done with rate hikes yet. The largest US banks are set to report their biggest jump in loan losses since the pandemic, and what they are seeing in their balance sheet is, at best, the effect of last autumn's rate hikes. And it is still more likely than not that central banks will end up over-tightening, i.e. constricting the economy more than they need to. Why? Because the economic equilibrium is a myth. No equilibrium can exist if the variables that create it are in constant motion. Thus, no one can get interest rates 'just right'. The moving parts of the economy are too many to pre-calculate. So pushing the economy into a recession, and then taking the opposite action to restore demand, is the most probable course of action for central bankers.

Last week's volatility wasn't about the jobs market. Partly it was about taking some profit from the AI-driven rally. Partly it was a -welcome- return to the reality of higher interest rates and lower growth in the months to come.

George Lagarias – Chief Economist

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