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Market Snapshot

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Global equity markets gained ahead of an expected interest rate cut next week by the Federal Reserve, its first in four years. US inflation data was supportive of an interest rate cut, but the market continues to debate whether a 25-basis-point (bp) cut or a 50bp cut is likely. The US central bank has a dual mandate to promote maximum employment and stable prices. With some weakness in recent employment data some in the market see a 50bp cut as likely, but this could send an ominous message to markets as concerns about a US recession persist.

The FTSE 100 was up 0.7% by mid-session on Friday, with the more UK-focused FTSE 250 trading up 1.4%.

30 October Budget

Labour has ruled out raising taxes on “working people” in its first budget statement on 30 October, including Value Added Tax, Income Tax and National Insurance.

Economics

Hopes that the Bank of England will cut interest rates further in the coming months were boosted after data showed UK wage growth continued to slow in the three months to July. Average earnings excluding bonuses slowed to an annual rate of 5.1% in the period, with annual pay growth including bonuses slowing to 4% from 4.5% in the three months to June, in part due to a one-off payment to NHS staff in June 2023 that was not repeated this year. The unemployment rate declined to 4.1% from 4.2% in the previous three months, in line with economists’ expectations.

US inflation data was better-than-expected but has done little to resolve the debate over whether the Federal Reserve (Fed) will cut interest rates by 25 basis points or by 50 next week.

August jobs report already muddied the waters and increased the prospects of a 50-basis-point cut, as the US added fewer jobs than expected. Senior Fed staff have clearly telegraphed that policymakers are now focused less on inflation and more on employment. The central bank, after all, has a statutory dual

mandate – to promote maximum employment and stable prices. With inflation subdued and heading towards its target, employment prospects now matter more to most Americans, as well as the central bank. But a 50-basis-point cut could fuel worries that things are worse than they seem – and the US really could be at risk of falling into recession. This makes it less likely than a 25-basis-point cut on 18 September, but it remains a close call. Also, US producer price inflation slowed to a six-month low of 1.7% in August, from a revised 2.1% in July and slightly under the 1.8% expected by the market. Over the month, wholesale prices rose by 0.2%, as expected.

The European Central Bank (ECB) delivered an expected quarter-point interest rate cut, marking its second reduction to the deposit rate this year. The ECB also lowered its 2024 growth forecast to 0.8%, down slightly from an earlier projection of 0.9%, citing “weaker contribution from domestic demand over the next few quarters.”



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Japan’s economy grew at a slightly slower rate than initially reported between April and June, with the second reading hit by downward revisions in corporate and household spending. The country’s gross domestic product (GDP) expanded by 2.9% annually in the second quarter, revised down from the initial reading of 3.1%. The data is disappointing for the Bank of Japan, which is keen to boost domestic demand as it focuses on exiting its decade-long monetary stimulus programme and it may raise interest rates further in the coming months.

JPMorgan Chase chief executive Jamie Dimon said he wouldn’t rule out stagflation in the US, even with greater recent confidence that inflation is coming off its highs. “I would say the worst outcome is

stagflation – recession, higher inflation,” Mr Dimon said at conference held by the Council of Institutional Investors in New York. “And by the way, I wouldn’t take it off the table.”

Economic data from China was gloomy and there is a continuing concern that the country is heading towards deflation. The country’s consumer price index (CPI) rose less than expected in August, up 0.6%, compared with market expectations of 0.7%. This was ahead of July’s annual rate of 0.5%, but the uptick was due more to higher food costs from weather disruptions than a recovery in domestic demand. Consumer prices in China have remained subdued amid lacklustre domestic demand since the pandemic. Deflation in an economy can be negative because it can lead consumers to spend less now because they expect prices to continue to fall. Meanwhile, China’s producer price index (PPI) in August slid 1.8% from a year earlier, the largest fall in four months. That was worse than a 0.8% decline in July and below a forecast 1.4% fall. PPI measures the average change over time in the selling prices received by domestic producers for their output.

Energy

Opec once again cut its forecast for global oil demand growth in 2024 and trimmed its expectations for next year, its second consecutive downward revision this year. The energy cartel said world oil demand will rise by 2.03 million barrels per day (bpd) in 2024, down from growth of 2.11 million bpd it expected last month. Until August, Opec had kept its forecast unchanged since it was first made in July 2023. China accounted for the bulk of the latest downgrade, with the cartel noting that oil use in the world’s second largest economy was facing headwinds from economic challenges and moves to cleaner fuels. At the start of September, Opec+ - which includes Russia – delayed a plan to start pumping more oil after prices hit the lowest in 2024.

Geopolitics

Donald Trump ruled out another presidential debate with his rival Kamala Harris before November’s election. He said on Thursday – two days after the pair’s first televised showdown - that Ms Harris only wanted a rematch because he “clearly” won. Several instant polls taken after Tuesday’s contest indicated voters felt Ms Harris had performed better than her Republican counterpart.

A court in Georgia dismissed two of the ten criminal charges against Donald Trump for alleged attempts to interfere in the 2020 presidential election. Fulton County Judge Scott McAfee ruled that the state did not have the authority to bring the specific charges related to the alleged filing of false documents in federal court. Judge McAfee allowed the rest of

the case to move forward, including eight charges against Trump, out of the original 13.

The chief executive of **Kazatomprom**, the world’s largest uranium miner, warned that Russia’s war in Ukraine is making it harder to supply the West with the radioactive metal. Meirzhan Yussupov said sanctions caused by the war had created obstacles to supplying Western utilities. Kazakhstan produces 43% of the world’s uranium. Nevertheless, the state-controlled miner said it wants to keep a diverse mix of customers that includes US and European utilities, even though shipping material on the traditional route via St Petersburg is no longer an option due to sanctions risk.

Companies

Global dividends rose to a record \$606.1bn, up 8.2% on an underlying basis, driven by record European payouts and new dividend payers Alphabet and Meta, according to the latest Janus Henderson Global Dividend Index. There was broad-based growth in the second quarter, with 92% of companies globally raising dividends or holding them steady. However, the UK lagged the global trend, with domestic dividends rising just 0.7% in the period to \$36.7bn. The slow growth rate reflects dividend cuts in the mining sector, specifically from **Glencore**. Excluding the mining sector, however, underlying growth was 8.6 percentage points higher year on year.

A profit warning from **Rentokil Initial** blamed on weaker demand for termite extermination services in the US sent shares in Rentokil Initial crashing. The company, which became the biggest pest control group in the world in 2021 after its \$6.7bn takeover of American rival Terminix, warned that adjusted profits were likely to be below £700m – short of the £776m expected by analysts.

Apple was told to pay back €13bn in unpaid taxes to Ireland by the European Court of Justice (ECJ). The EU Commission accused Ireland of giving Apple illegal tax advantages eight years ago, but the Irish government has consistently argued against the need for the tax to be paid back. “The Court of Justice gives final judgment in the matter and confirms the European Commission’s 2016 decision: Ireland granted Apple unlawful aid which Ireland is required to recover,” the court said. The news comes a day after the tech giant released its new iPhone 16 range, which is designed to make the most of new developments in artificial intelligence (AI). Chief executive Tim Cook said the latest model was the first of its smartphones to be “designed from the ground up” for AI “and its breakthrough capabilities”.

AstraZeneca shares fell after the pharmaceutical giant announced disappointing lung cancer drug trial results. Data published on Monday showed that

its experimental drug Dato-DXd did not significantly improve overall survival results for patients.

Barratt Developments, Lloyds Banking Group and government body Homes England formed a joint venture to focus on developing large sites. The Labour government has a building target of 1.5 million homes before the next election. It plans to do this developing “brownfield” sites such as car parks and green spaces with low environmental value. The private-public joint venture vehicle called MADE Partnership is initially backed with a £150m - £50m [LH1] from each venture partner – and will act as a master developer of sites with up to 10,000 homes.

Shares in European carmakers fell following a profit warning from German giant **BMW**. The automaker reduced its financial guidance for the year, citing weaker sales – particularly in China – as well as supplier issues. BMW cut its annual vehicle deliveries guidance from a slight increase to a slight decrease and reduced its margin expectations. Management expects a significant fall in pre-tax profits previous guidance of a slight decrease.

Housebuilder **Berkeley Group** maintained its full-year guidance after trading in the first four months of the year was stable. Management said it was on track to achieve its annual pre-tax earnings guidance of £525m. It added that 90% of this is already secured through exchanged sales contracts. Profits for the year are expected to be weighted towards the first half and its operating margin will be slightly ahead of the group’s long-term target range of 17.5% to 19.5%.

New-York-listed **AngloGold Ashanti** will buy Egypt-focused smaller rival **Centamin** in a \$2.5bn billion stock and cash deal. Centamin will be the latest miner to delist from the London Stock Exchange. There has been an exodus of Russian gold miners in the wake of Moscow’s invasion of Ukraine.

Discount supermarket **Aldi UK** posted a 16% increase in sales in 2023, its largest ever rate of annual sales growth. The supermarket announced it would open 23 new stores in the next 16 weeks as part of an £800m investment plan. However, big-supermarket competitors such as Tesco and J Sainsbury are fighting back, with Aldi’s market share of the UK grocery market falling from 10.2% to 10.0% in the year to August, according to data from market researcher Kantar.

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