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Market Snapshot

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The Federal Reserve send a shockwave through global markets after rowing back on expectations of interest rate cuts in 2025. The central bank is now projecting just two interest rate cuts over the year, as inflation has remained stubborn – and several president-elect Donald Trump’s policies are likely to be inflationary.

What lies in store for markets in 2025? The political and policy upheaval we can expect out of the US, the stimulus program out of China, economic stagnation in Europe, and the budget tightrope walk in the UK. How will these factors impact underlying demand for company sales, margin pressure, inflation pressure, central bank action, long-term bond yields and, ultimately, market outcomes?

The FTSE 100 was -3.0% over the week by mid-session on Friday, with the more UK-focused FTSE 250 trading -2.9% lower.

Economics

The US Federal Reserve sparked an equity-market sell off after policymakers dampened expectations of the number of interest rate cuts in 2025 and revised its inflation expectations higher. Although the central bank cut its key interest rate by 25 basis points (bp) – its third consecutive cut to borrowing costs – projections by members of the Federal Open Market Committee saw Fed officials projecting half as many rate cuts next year in its “dot plot” summary as was seen in its last update in September. The central bank now projects just two interest rate cuts over the course of 2025.

Progress on tackling inflation has slowed in recent months and several of president-elect Donald Trump’s policies expected to be implemented following his inauguration in January are likely to be inflationary. These include actions such as raising tariffs that increase the cost of cheap imported goods, mass deportations that make low-skilled workers scarce, and tax cuts that increase an American’s spending power.

The Fed’s favoured inflation gauge, the personal consumption expenditure (PCE) index, is expected

to rise for a second consecutive month when data is released on Friday. The core PCE measure excluding volatile food and energy prices – is the focal point for monetary policy and is expected to hit 2.9%, the highest reading since April. The rise would echo a similar uptick on the already-released CPI inflation gauge for the same period. Inflation readings in September and October also came in higher than anticipated.

The US economy grew by 3.1% in the third quarter of 2024, an upgrade from the previous estimate of 2.8%. The figure was ahead of expectations and growth in gross domestic product (GDP) has been more than 2% in eight of the last nine quarters.

The Bank of England (BoE) left interest rates unchanged at 4.75% after UK inflation rose to its highest level in eight months in November. The consumer prices index (CPI) rose by 2.6% last month from 2.3% in October, driven by the rising cost of petrol and groceries and an increase in tobacco duty in the budget. The figure was in line with economists’ expectations although it represents the second consecutive month that inflation has risen further above the central bank’s 2% target.

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Supporting the BoE’s decision to leave interest rates unchanged was the fact that pay growth has picked up for the first time in more than a year. Regular pay grew at a faster-than-expected annual pace of 5.2% between August and October, the Office for National Statistics said, with wages continuing to grow faster than prices.

Corporate America and US residential households have significantly lower energy bills than their

counterparts in Europe. This is a significant economic issue.

Geopolitics

The UK needs to spend 3.6% of its GDP on defence if it wants to modernise its military while protecting its nuclear deterrent and meeting Nato obligations, according to Ministry of Defence estimates. This represents a 56% increase on the current spending level of 2.3%. Prime Minister Keir Starmer has given an “iron clad” promise to raise spending to 2.5% and has launched a root-and-branch review of Britain’s military capabilities that will conclude next year.

Russian President Vladimir Putin has said he is ready to meet US president-elect Donald Trump and Russia would do so from a position of strength. “I haven’t spoken with him for more than four years, I am ready for this at any point,” Mr Putin said in his annual press conference. He said Russia had become “much stronger” since he launched the full-scale invasion of Ukraine in 2022.

US president-elect Donald Trump said the EU needed to commit to buying “large scale” amounts of US oil and gas or face tariffs. “I told the European Union that they must make up their tremendous deficit with the United States by the large-scale purchase of our oil and gas. Otherwise, it is TARIFFS all the way!!!” Mr Trump wrote on his Truth Social social-media platform.

Companies

Shares in the three listed water companies – **Pennon**, **Severn Trent** and **United Utilities** – rose on Thursday after regulator Ofwat released its final determination of water bills and expected investment over the next five years. Gains came alongside broader market falls following the Federal Reserve’s press conference on Wednesday evening. Average water bills are to rise by 36% in England and Wales over the next five-year regulatory period to 2030, which is equivalent to around £31 per year. The amount is higher than the 21% Ofwat initially proposed, but below the water companies’ request for an average rise of 40%. The water companies have until 18 February to respond. United Utilities Group will be allowed to increase bills by 32% and Severn Trent by 47%, with Pennon-owned South West Water and Bournemouth Water rising by 23%.

US chipmaker **Micron** reported first-quarter adjusted earnings per share that were ahead of market forecasts and revenues that were in line with expectations. However, the company issued a much weaker-than-expected second quarter outlook that has overshadowed positive trends in its DRAM business, which allows for quick access to data in

technology such as smartphones and computers. The weakness comes from the NAND flash memory chip business, which generates about a quarter of revenues. This weakness was due to a rundown of inventories at equipment manufacturers and is expected to be short lived.

Accenture reported solid first-quarter results that were ahead of market forecasts. Management at the Information technology consultancy also raised its revenue guidance for the full year.

Shares in **Nike** soared in afterhours trading after the embattled sportswear seller’s second-quarter results beat Wall Street estimates. However, once the market digested its guidance for the third quarter these gains were reversed. Sales are expected to fall year on year in the current quarter and new chief executive Elliott Hill said Nike’s efforts to regain lost market share would mean some short-term pain and a recovery would take time.

The UK government approved the takeover of Royal Mail owner **International Distribution Services** by the Czech billionaire Daniel Kretínský. The £5.3bn deal had been agreed in May but was subject to a government review under national security laws as Royal Mail is considered vital national infrastructure.

Carlsberg’s £3.3bn deal to buy Robinsons squash maker **Britvic** was given the go-ahead by Britain’s competition watchdog. In September, the Competition and Markets Authority (CMA) said it would launch an initial probe but confirmed it would not be referring the tie-up for a full in-depth investigation. The deal is now expected to complete on 16 January.

Activist investor Palliser Capital will force a motion at **Rio Tinto’s** next annual meeting (AGM) that will allow shareholders to vote on whether the company should launch a review into moving its primary listing from London to Sydney. The hedge fund said it had the support of more than 100 shareholders, which is enough to ensure the resolution is moved at the miner’s next AGM in April.

Spanish state-owned shipbuilder **Navantia** will buy Belfast-based **Harland & Wolff** in a rescue deal after the company fell into administration in September. Navantia will acquire Harland & Wolff’s Belfast shipyard, where the Titanic was built, as well as the Arnish and Methil yards in Scotland, and the Appledore site in Devon. The amount paid was not immediately disclosed.

Japanese carmakers Honda and Nissan have reportedly held exploratory talks about a potential merger to help them compete against electric vehicle (EV) makers, particularly in China. The discussions

were said to be in the early stages. In March, the two Japanese car makers agreed to explore a strategic partnership for EVs.

The US Supreme Court said it would hear **TikTok's** challenge to a law that could ban the company's popular video app from the country. The court has set aside two hours for oral arguments on 10 January to consider TikTok's lawsuit against the justice department and the attorney general, Merrick Garland.

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