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Market Outlook

The rise in interest rates by 0.5% at the end of last month took many by surprise but faced with no change in inflation the Bank of England (BOE) probably had little choice. A 0.25% hike in rates would not have signalled to the stock market and the currency market that the BOE was taking a serious approach to reigning in inflation. Indications that inflation may be lower this month must have been at the back of their minds which they hoped might delay any sharper interest rate increases. However, most economists and forecasters believe that interest rates have much further to go before the BOE can take a more conciliatory approach to its interest rate policy.

Interestingly, the property market seems to be remaining firm with forecasts for prices to weaken, but not as significantly as previously thought. However, as we have said before in this column many forecasters and pundits have been proved wrong on more than one occasion. Time will tell in the months to come as inflation is expected to ease and the BOE finally decides it does not need to keep raising interest rates to dampen inflation.

However, the Prime Ministers words in January, when inflation was just over 10%, that he promised to halve it by the year end must be under scrutiny as the latest data from the Office for National Statistics (ONS) shows inflation down to 7.9%. This number was better than expected but suggests that those with a mortgage or looking to remortgage have more financial pain to endure with six months of year already gone and further increases in interest rates, albeit smaller than originally thought, a distinct possibility.

Turning to the stock market, the first week of July proved to be a challenging time for investors with the UK's main index, FTSE 100 Share Index falling over 3.50%, the more UK biased FTSE 250 Index shed 1.46%. Across the pond our American cousins fared little better with the Dow Jones easing back 1.95%. Finding one specific cause is difficult, but disappointing US jobs growth and the ever-worrying direction of interest rates were contributing factors. With the world's largest economy slowing, any global index (such as the FTSE 100) is going to be vulnerable to market sentiment.

The second week of July saw a drastic change: when US inflation numbers were released, stock markets on both sides of the Atlantic turned around. Comparisons of inflation between UK and the USA were stark. Inflation in the USA has fallen from a peak of more than 9% in June 2022 to just 3%. This figure suggests the action taken by the Federal Reserve is taking effect. However, the largest contributor to this sharp fall has been, like the UK, the price of energy. These numbers do not say that the USA will not see more interest rate rises but it does seem to indicate that they could be more muted than in the UK.

The improved inflation numbers boosted the FTSE 100 Share Index again and it rose to levels not seen since the start of the month. For fund managers, this represented a trading opportunity.

The decision by the Federal Reserve (Fed) to raise rates by 0.25% was generally well received in the fight against inflation. Although this was the fourth rise this year indications suggest that the Fed has beating inflation clearly in its sights. Wall Street was positive, and the US dollar gained against Sterling.

On a lighter note, in the USA, Mattell enjoyed a boost to its earnings as the film Barbie broke box office records. The share price surged after the first weekends results were in, but analysts will be keen to see if the momentum can be maintained through merchandising after sales. At the moment the company's position can be described as 'being in the pink'!

Outlook by Asset Class/Region

Asset/Region	View
Cash	Positive
Government Bonds	Neutral
Credit Fixed Income	Neutral
Property	Negative
UK Equity	Positive
US	Positive
Emerging	Neutral
Asia	Neutral
Commodities	Negative
Alternatives	Negative
Technology	Neutral

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Important information

Pensions are a long term commitment, you may not be able to access your pension funds until the age of 55 (currently), investments can go down as well as up and you might not get back your initial capital. Pension and tax legislation does and can change in the future which could impact your pension.#

Please note: The Financial Conduct Authority does not regulate tax planning.

As a mortgage is secured against your property it may be repossessed if you do not keep up the mortgage repayments.

The value of your investment and any income from it could fall or rise, and you may not get back the full amount you invest.

Past performance is not a reliable indicator of future results. We always recommend you talk to a qualified financial adviser before making any investment decisions.

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