Marlborough

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Weekly Market Review

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Market recap – strong US jobs report shifts rate bets while Middle East tensions push oil higher

The performance of global stock markets was mixed last week, as a much-stronger-than-expected US jobs report reshaped interest rate expectations and renewed conflict between the US and Iran pushed oil prices sharply higher. In the US, the **S&P 500 rose 0.6%** (all returns quoted in sterling terms unless otherwise stated) and the **Nasdaq 100 gained 0.9%**. The UK's **FTSE 100 was little changed**, with reports of possible new taxes on banks and energy firms weighing on financial shares. Meanwhile, the **MSCI Europe index (excluding the UK) fell 0.6%** as bond yields* rose sharply. Japan was the standout performer in sterling terms, with the **TOPIX up 1.8%** and the **Nikkei 225 up 0.7%**, though both indices actually fell in local currency terms. These gains reflected a stronger yen rather than genuine market strength. **MSCI China fell 0.8%**, while the broader **MSCI Asia Pacific (excluding Japan) index rose 0.5%** and **MSCI Emerging Markets gained 0.7%**.

**Yield is the income paid by bonds (or other investments). It is usually stated as a percentage of the value of the investment.*

Geopolitics – renewed Iran strikes reignite fears over oil supply, AfD breakthrough in Germany

The **US and Iran exchanged military strikes as conflict escalated once more around the Strait of Hormuz**, the narrow waterway through which a fifth of the world's oil and gas supplies are normally carried. This sent oil prices sharply higher (see Commodities, below) because of fears that higher energy costs could keep inflation elevated for longer. However, sentiment improved a little as the week wore on. Separately, **US President Donald Trump renewed his pressure on the Federal Reserve (the Fed) to cut interest rates**, threatening to suspend trade with countries that run a surplus with the US if it does not comply.

In Germany, the far-right **Alternative for Germany (AfD)** party won a decisive victory in Sunday's regional election in Saxony-Anhalt with around 44% of the vote, according to preliminary figures. This is the party's best result yet, though it looks likely to fall short of an outright majority. The vote marks a significant breakthrough for the AfD and developments will be closely watched ahead of further regional elections this month.

Central banks – investors now pricing in 60% chance of US rate rise

Government bond yields rose sharply across major markets during the week, as investors weighed higher energy prices and robust growth against the risk that interest rates stay higher for longer. The US 10-year government bond yield briefly touched its highest level in almost two years. The effects of reassurance from Fed policymaker Christopher Waller mid-week proved short-lived. Friday's much stronger jobs report (see News, below) put a rate rise firmly back on the table, with markets ending the week pricing in around a **60% chance of a hike** when the Fed meets on 16 September. Japanese bond yields hit their highest level in nearly three decades before slipping back, as the Bank of Japan signalled it too is considering a rate rise this month.

News – US jobs report significantly beats expectations

The single biggest economic story of the week was Friday's US jobs report, which showed employers added **162,000 jobs in August**, far more than the 55,000 expected and a sharp turnaround from July's weak reading. Unemployment held steady at

4.1%, while wage growth continued to ease, a reassuring sign for the health of the labour market. The scale of the surprise revived expectations of a Fed rate rise, sending bond yields and the dollar higher, while putting downward pressure on the gold price.

Economic data – mixed signals on global growth

Eurozone retail sales fell at their fastest pace in over a year in July, while producer prices rose more sharply than expected. In the UK, construction activity weakened further in August, though new car registrations extended their recent run of growth. Japanese household spending fell sharply again.

Commodities

Brent crude oil rose to around $96 a barrel, up by roughly 8% over the week, its strongest weekly gain since July, as renewed conflict between the US and Iran raised fears of a lasting disruption to Middle East oil supplies.

Gold fell to around $4,400 an ounce, down about 1% over the week, as Friday's stronger-than-expected US jobs data increased expectations of an interest rate rise. This boosted the dollar but reduced demand for gold, which pays no income.

Week ahead – what to watch

US: Markets closed for Labor Day (Mon); producer prices (Thu); existing home sales (Thu); consumer prices, the last major reading before the Fed's next meeting (Fri); University of Michigan consumer sentiment (Fri).

UK: Monthly economic growth (as measured by gross domestic product or GDP) data (Fri).

Europe: German trade data (Tue); European Central Bank rate decision (Thu).

Asia: China trade data (Tue); China inflation data (Wed).

Source: Marlborough Multi-Asset, Morningstar, Financial Times, PIMCO, T. Rowe Price, Anglia Advisors, Trading Economics

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