Marlborough

Multi-Asset Investment Solutions

Weekly Market Review

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Market recap – oil price surge and AI worries push markets lower

Stock markets fell again last week, as rising oil prices revived inflation concerns and worries about the amount technology companies are borrowing to invest in artificial intelligence (AI). In the US, the **S&P 500 fell 0.7%** (all returns are in sterling terms unless otherwise stated) and the tech-heavy **Nasdaq 100 fell 1.0%**. The **FTSE 100 fell 1.7%**, as banks slipped ahead of this week's Budget and gold miners followed the gold price lower, but oil companies Shell and BP gained. **MSCI Europe (excluding the UK) fell 2.0%**, with France a drag as worries grew about the country's public finances. In Japan, the **Nikkei 225 fell 3.5%**, its second consecutive weekly fall, while the broader **TOPIX fell 2.0%**. **MSCI China fell 4.7%**, as tech shares fell and battery maker CATL slumped after disappointing results. The wider **MSCI Asia Pacific (excluding Japan) index fell 2.4%** and **MSCI Emerging Markets fell 2.9%**.

Geopolitics – attacks on Saudi Arabia raise Middle East tensions

Tensions in the Middle East escalated during the week. Iran-backed **Houthi rebels continued attacks on Saudi Arabia**, prompting the US to order non-essential government staff to leave the country, while oil giant **Saudi Aramco told staff to leave its headquarters** and work from home. Reports suggested the **US and Israel have drawn up plans for fresh strikes on Iran** after next week's US midterm elections, and President Donald Trump said Washington was not negotiating with Tehran. Closer to home, **protests in France and Italy** added to worries over government finances in Europe.

Central banks – UK rate rise expected next week

Against a backdrop of rising inflation, investors are expecting the **Bank of England to raise interest rates on 5 November**, with at least three 0.25% rises expected by April 2027. In the US, markets see only a small chance of a **rate rise by the Federal Reserve (the Fed) this week** but still expect one in December. The **European Central Bank (ECB)** is also expected to hold rates steady this week. In Japan, inflation moved back above the central bank's 2% target, making a **rate rise in December** more likely. South Korea's central bank **held rates at 3.0%** after two rises over the summer, while China's central bank kept its main lending rates at record lows.

News – France's borrowing costs hit a 24-year high

France's public finances were a key focus for investors last week. The interest rate the French government pays to borrow for ten years rose to its **highest level in 24 years**. The difference in the rate it pays compared to Germany has now reached its **highest since the eurozone debt crisis**. Investors are worried about a **budget deficit expected to reach 5.4% of the economy** this year. They are also concerned about a divided parliament, widespread protests and elections looming next year. French business activity is shrinking, and business confidence has fallen to its lowest since April 2020. Ratings agency **Moody's kept France's credit rating unchanged** on Friday, avoiding an expected downgrade, but it continues to describe the outlook as 'negative'.

Economic data – UK inflation jumps, US firms raise prices

UK inflation rose to **3.5%** in September (from 3.1% in August). This increase, which was higher than forecast, was driven by rising fuel prices. UK business activity grew at its **fastest pace in eight months**, but **retail sales fell** more than expected and consumer confidence suffered its steepest fall since the pandemic. In the US, business surveys showed strong activity, but firms raised prices at the **fastest pace since 2022**, while consumer confidence stayed near a five-month low. Japan's inflation rose to **2.1%**, a nine-month high, while **China's economy grew 4.5%** in the third quarter, beating forecasts.

Commodities

Brent crude oil rose above $116 a barrel, a four-year high and **up more than 6%** over the week, as attacks on Saudi Arabia increased concerns about supplies.

Gold fell below $4,000 an ounce, its lowest level since mid-July and **down almost 4%** over the week, as higher oil prices raised expectations that US interest rates will stay higher for longer.

Week ahead – what to watch

US: Durable goods orders (for long-lasting goods such as machinery) (Tue); Federal Reserve interest rate decision (Wed); third-quarter economic growth and core Personal Consumption Expenditures (PCE) inflation (the Fed's preferred inflation measure) (Thu).

UK: Autumn Budget (Wed).

Europe: German Ifo business climate survey (gauging German firms' views on the economy) (Mon); ECB rate decision (Thu); eurozone third-quarter economic growth and German, French and Italian inflation (Fri).

Asia: Japanese consumer confidence (Thu); Bank of Japan rate decision (Fri).

Sources: Marlborough Multi-Asset, Morningstar, Financial Times, Trading Economics

Risk Warnings

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