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Market Snapshot

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After the Federal Reserve held interest rates at a 23-year-high at its latest policy-setting meeting, central bank chair Jerome Powell repeated his previous comments that policymakers wanted to see "greater confidence that inflation was easing" before they started to cut. The market interpreted the comments as less dovish – yet another sign that interest rates will stay "higher for longer" in the current cycle.

Since the start of April, markets have been forced to accept the reality that interest rates will not start to be cut any time soon. This has hit US equities and brought Wall Street indices off record highs. Inflation has proved sticky in the early months of the year, the US economy has been robust – and the jobs market, although showing signs of becoming less tight, remains buoyant.

Oil prices were on track for their biggest weekly fall in three months in early trading on Friday. This will be welcome news for central bankers – as well as incumbent US President Joe Biden, who wants to keep gasoline prices low ahead of November's presidential election. Falls in the crude price resulted from an apparent easing in Middle Eastern tensions and uncertainty about demand for energy as economies felt the impact of higher cost of borrowing for companies and households.

The earnings season continues, with investors focusing on outlook statements due to the current economic uncertainty. In general, any disappointing guidance has resulted in companies share prices being sharply hit.

The FTSE 100 hit an all-time high in April and put in another positive performance, boosted by sterling weakness. Over the week, the blue-chip FTSE 100 index was up 1.2% by mid-session on Thursday, with the more UK-focused FTSE 250 trading 2.3% ahead.

Economics

The Federal Reserve (Fed) kept interest rates on hold at a 23-year high but noted that there had been a "lack of further progress" toward lowering inflation. Market participants who expected the central bank to start cutting rates early this year have been forced to push back their expectations – and some even raising the possibility of a further interest-rate rise. However, at the press conference following the announcement, chair Jerome Powell said he thought that a rate increase was "unlikely", while repeating that officials wanted greater confidence that inflation was easing before they started to cut the cost of borrowing.

US consumer confidence deteriorated in April, falling to its lowest level in more than a year and a half amid worries about the jobs market and income. The Conference Board said that its consumer confidence index fell to 97.0 this month, the lowest level since July 2022, from a downwardly revised 103.1 in March. Economists polled by Reuters had forecast the index little changed at 104.0 from the previously reported 104.7.

The UK economy will see the slowest growth of the largest developed nations next year, according to the Organisation for Economic Co-operation and Development (OECD). The think tank forecast that UK gross domestic product (GDP) will rise by 1% in 2025. This is below the rest of the G7 nations, which include Canada, France, Germany, Italy, Japan and the US. The UK economy is now forecast to expand by 0.4% this year, a downgrade from the OECD's previous projection for 0.7% growth. It also warned that some elements of inflation remained "sticky" and that uncertainty over when the Bank of England might change interest rates "will impede investment".

Economic sentiment took a hit across both the eurozone and the wider European Union (EU) in April. The European Commission's Economic Sentiment Indicator (ESI) saw a slight decrease in both the EU – down 0.3 of a point to 96.2 – and the euro area where it was down 0.6 of a point to 95.6.

The market view on prospects for interest rates in major economies is now more aligned with comments from central bank officials. However, there is still scope for disappointment.

Since the financial crash and again since Covid-19-related lockdowns there has been evidence of slower labour productivity growth rates both sides of the Atlantic.

Geopolitics

The largest western banks that are still operating in Russia paid more than €800m (£684m) in taxes to the Kremlin last year, according to analysis by the Financial Times. The seven top European banks by assets in Russia reported a combined profit of more than €3bn in 2023, which was three times more than in 2021. The earnings of **Raiffeisen Bank International**, **UniCredit**, **ING**, **Commerzbank**, **Deutsche Bank**, **Intesa Sanpaolo** and **OTP** were partly generated by funds that the banks could not withdraw from Russia. Their jump in profitability meant that the European banks paid about $800m in tax to Moscow, up from €200m in 2021.

The US Senate has passed legislation to ban imports of enriched uranium from Russia, in a move to curb cash flows to Vladimir Putin's regime during its war in Ukraine.

The European Commission has opened a formal investigation into **Meta Platforms** over its handling of political content, including a suspected Russian influence campaign. It will assess whether the company's approach to moderating disinformation on Facebook and Instagram breached European Union law. Among the Commission's concerns is Meta's oversight of its advertising tools, and whether they had been exploited by "malicious actors".

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New rules that tighten Chinese government restrictions on the country's internet companies came into effect. The expanded State Secrets Law requires internet groups – including social media giants **Tencent**, **ByteDance** and **Weibo** – to act if users post sensitive information. It requires "network operators" to monitor information being shared by users. The rules also describe how posts should be removed, records saved – and reported to authorities. At the end of April, US President Joe Biden signed into law a bill that bans TikTok in the country if its owner, China's ByteDance, fails to divest the popular short video app over the next nine months to a year. ByteDance said it had no plan to sell TikTok. US lawmakers and authorities are concerned that data from TikTok's 170 million US users could be accessed by the Chinese state.

The US Federal Communications Commission is moving to prevent **Huawei**, **ZTE** and other foreign companies deemed to pose a US national security risk from certifying wireless equipment, Reuters reported. The regulator plans to vote this month on a bipartisan proposal to ensure that telecommunications certification bodies and test labs that certify wireless devices for the US market are not influenced by companies posing security concerns.

The disruption to global trade from ships not being able to use the Red Sea or Suez Canal could last into next year, according to Vincent Clerc, chief executive of Danish shipping group **Møller-Maersk**. The head of the world's second-largest container group said there was no sign of tensions easing after Houthi rebels in Yemen caused container shipping companies to divert their vessels around the Cape of Good Hope, adding to time and cost for transporting goods.

Company news

Amazon.com reported a very strong set of first-quarter results, beating market forecasts. Operating income soared more than 200% in the period to $15.3bn, far outpacing revenue growth, the latest sign that the company's cost-cutting measures and focus on efficiency is bolstering its bottom line. Its cloud-hosting business AWS accounted for 62% of total operating profit.

HSBC posted first-quarter results that were ahead of market expectations. Chief executive Noel Quinn surprised the market by announcing his early retirement after a five-year stint leading the bank. HSBC has begun the hunt for his replacement. The bank also announced it will buyback $3bn worth of shares, bringing the total buybacks for shareholders to $8.8bn.

Pharma giant **GSK** beat market expectations in the first quarter due to a good performance from respiratory drugs and an impressive beat for a new oncology drug Ojjaara. Guidance for 2024 was raised thanks to the strong performance, in part due to the seasonality and timing effect of vaccine orders, and also a one-off benefit from the reversal of a legal provision following a successful appeal in a royalty dispute.

Denmark's **Novo Nordisk** posted a robust set of first-quarter results. Revenues beat market expectations, largely driven by its diabetes care drugs, including Ozempic and insulin products, and the benefits from prior year rebate adjustments in the US. However, this was partly offset by weakness in the obesity segment due to a miss from weight loss drug Wegovy, which saw volume growth offset by lower realised prices. Despite this, Wegovy sales grew by 107%, and demand continues to outstrip supply, particularly in North America. A sharp increase in new patients taking the treatment has led to the continued restriction of supply of lower strength starter doses to ensure a stable supply for those on treatment.

Life and pensions group **Prudential** said it has seen “robust” trading in the first quarter, with new business profit increasing by 11%, reaching $810m across diverse geographical markets. The company’s growth markets segment saw strong sales, driven by markets such as Thailand, Taiwan, India, and Africa. Despite margin declines due to the mix of new business, overall new business profit increased due to substantial sales growth.

UK fashion retailer **Next** said first-quarter sales came in ahead of forecasts and held guidance for the full year but warned that the next three months would be weaker due to wet spring weather. The company is well known for being cautious with its guidance to financial markets.

It was a difficult start to 2024 for US-listed coffee group **Starbucks**. The company missed market expectations across the board in its second quarter, posting lower than expected revenue, earnings, and same-store sales growth, as customers pulled back on the frequency of their visits and size of their orders. Chief executive Laxman Narasimhan called it a “a highly challenged environment”. To attract the occasional customers, Starbucks plans to add new promotions to its app.

Apple’s quarterly results provided some welcome relief for investors. The iPhone maker posted a better-than-feared set of quarterly results and management delivered guidance that suggested a return to growth is at hand. Investors cheered the results, sending them higher in after-market trading. While revenue and iPhone sales declined during the quarter, these results were also better than the market expected. The same was true in Greater China – things were not as bad as some had believed. This alleviates some concerns over competitive pressure.

Smith & Nephew issued a confident first-quarter update and reiterated revenues would grow strongly over the remainder of the year. However, this implies an acceleration of sales growth through the rest of the year after first-quarter sales grew at 2.9%, below market expectations. Management’s guidance to the market is for annual sales growth of 5% to 6%.

Booking Holdings delivered strong first-quarter results, with room nights booked growing 9%, and revenue and adjusted earnings exceeding guidance. The company sees healthy demand for the peak summer travel season, although second-quarter room night growth is expected to decelerate due to the tense geopolitical situation in the Middle East.

US-listed Cannabis stocks surged following reports that the US Drug Enforcement Agency planned to reclassify marijuana as a less dangerous drug, signalling that federal legalisation could be on the horizon. Nasdaq-listed shares of **Canopy Growth**, **Tilray Brands** and **Aurora Cannabis** rose sharply.

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