



FEDERAL RESERVE FALLS INTO LINE WITH MARKETS AS IT BECOMES MORE CAUTIOUS ON RATE CUTS

This week has brought official confirmation of several recent trends. Sentiment is often hard to pin down. It evolves over time, sometimes quite swiftly, and so defining exactly how people feel about a particular issue can be difficult. This week has brought some much needed clarity on two big issues: How closely does the market's view of inflation match the Federal Reserve's? And, how bad are Rishi Sunak's chances of re-election?

Investors have pushed back their assumptions for rate cuts due to rising inflation and robust growth in the US. The Fed held rates as expected and governor Jerome Powell effectively ruled out any further hikes. He warned that rates will remain elevated, while leaving room for a rate cut later this year and the slight drop in government bond yields shows markets broadly agree with the Fed's view. Meanwhile, any doubts about the Conservatives' popularity have been laid to rest as results from the local and mayoral elections show recent opinion polls are pretty accurate. Sunak and Powell will both hope that sentiment improves this year, but Sunak appears to have a tougher job convincing people he's on the right track.

THE MARKETS THIS WEEK

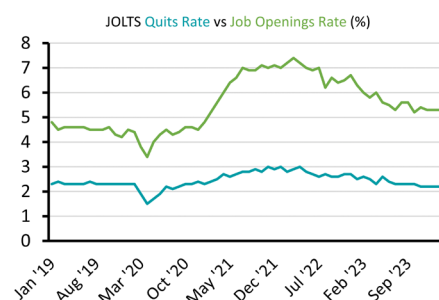
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
+1.10%	-0.14%	+0.88%	-0.23%	+3.15%	-0.08%	-0.05%	-5.97%	-2.36%	+7.67%	+0.16%

US: FED HOLDS RATES AND WARNS OF HIGHER FOR LONGER



The Federal Reserve left interest rates on hold at 5.25% as it pushed back expectations for interest rate cuts. Core PCE inflation, the Federal Reserve's preferred measure, was unchanged between February and March, while the US jobs market remains robust. Although indicators show the number of people quitting their jobs is falling and the number of new jobs created is also down on last month, this is still far higher than pre-Covid levels. Meanwhile wages are still rising faster than prices.

Economic news was slightly better in Europe. Inflation remained unchanged at 2.4%, as falling inflation in France and Italy helped offset rising prices in Spain. However, the European economy grew unexpectedly fast as GDP increased by 0.4% in Q1, compared with the previous quarter. The Fed's warning that rates will remain higher for longer brings it into line with market expectations, and the yield on US government bonds fell as bonds rallied and the dollar gained against most developed currencies.

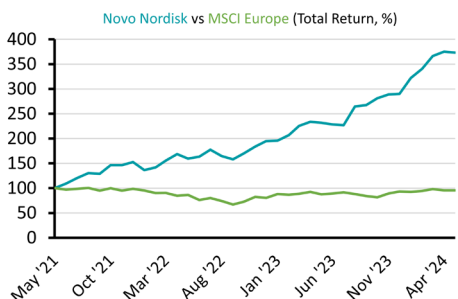


PHARMA: SUCCESS OF KEY PRODUCTS DRIVES POSITIVE UPDATES



Danish pharmaceutical giant Novo Nordisk has become the largest listed company in Europe due to the success of its weight-loss drug Wegovy. Sales of the anti-obesity treatment increased 24% compared with last year, as profits increased 28% and it expects sales to grow at a similar rate for the rest of the year. US rival Eli Lilly is also benefitting from its new weight loss treatment as revenues increased 26% in the first quarter due to sales of its diabetes treatment Mounjaro and its weight loss treatment Zepbound. Production problems restricted sales in 2023, but Eli Lilly has increased manufacturing capacity and expects full year sales will be around \$2bn higher at \$43bn.

In the UK, GlaxoSmithKline is also benefiting from strong demand for its key products, as sales of its shingles vaccine and HIV treatments increased first quarter revenues by 10%. The company now forecasts full year profits will be 9% to 11% higher this year as pharmaceutical companies have generally outperformed in 2024.

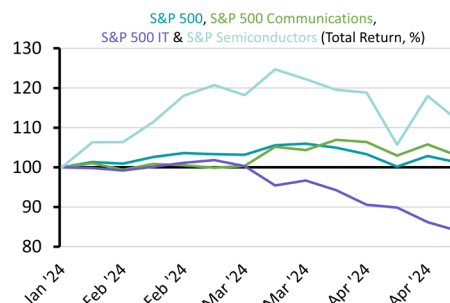


TECH: POSITIVE TRADING UPDATES BUT STOCKS REMAIN VOLATILE



The big technology firms have mostly delivered their first quarter updates. The reports have been mainly positive but they have generated significant share price volatility. Despite short-term movements, the Magnificent Seven tech stocks helped US equities steady this week. Amazon announced a big increase in revenues, driven by growth of its cloud computing business. However, profits next quarter are likely to be slightly below analysts' forecasts. Microsoft and Alphabet also announced rising revenues due to demand for cloud-based services as companies seek to develop the use of AI.

Meanwhile, Tesla's shares surged after it agreed a deal with Chinese company Baidu to improve its satnav systems and speed the development of its self-drive technology. It's shares gained around 35% this week, after poor Q1 sales. Nvidia will be the last big tech stock to report later this month. Its stock price has also been volatile, but its growth helped propel the semiconductor industry higher and outperform the wider market substantially.



Data sourced from US Bureau of Labor Statistics and Yahoo Finance

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