



### US AND UK RATES LEFT UNCHANGED AS MARKETS ASSESS MIXED UPDATES FROM US TECH STOCKS

This week the Federal Reserve and the Bank of England both left interest rates on hold. The recent modest reduction of inflation meant the decisions to leave rates unchanged was no surprise. Jerome Powell and Andrew Bailey tried to cool expectations of early rate cuts but weaker US jobs data re-established the positive mood in bond markets as UK, US and European government debt rallied.

The more interesting story was in US equities as enthusiasm for high-growth tech stocks was tested by mixed trading updates. Although Microsoft's revenue growth was better than forecast investors paused to catch their breath after its recent rapid growth. Meanwhile, shares in Alphabet and Apple fell as their relatively positive updates failed to keep up with investor expectations. Other tech stocks including Intel and AMD also fell this week as they failed to hit their revenue forecasts. Good results from Meta and Amazon showed tech stocks still have the ability to spring a positive surprise, but markets appear sensitive to any signs that tech stocks may not be able to live up to their high valuations.

### THE MARKETS THIS WEEK

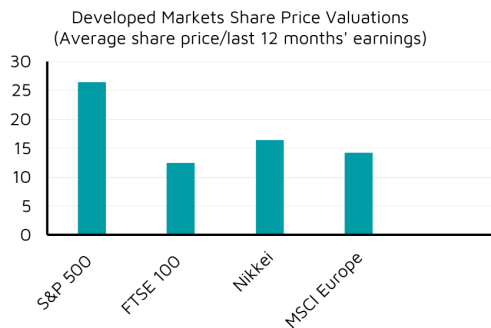
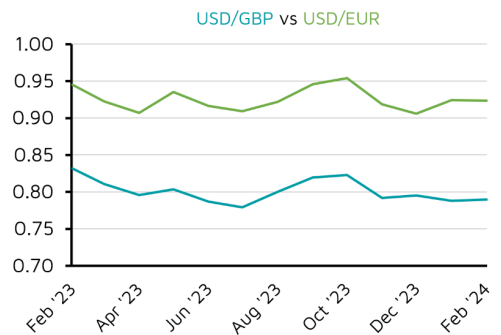
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
+0.50%	+0.98%	+0.80%	+0.77%	-3.29%	-0.23%	-0.17%	-3.12%	+1.36%	-2.91%	+0.24%



### RATES: US AND UK RATES HELD AS INVESTORS LOOK TOWARDS FIRST CUTS

The Federal Reserve and Bank of England left interest rates on hold as expected. However, economic news in the US revived speculation that rates will be cut soon as wage growth slowed and unemployment increased slightly. Fed chair Jerome Powell conceded the Fed is likely to cut rates this year but pushed back against expectation that the first cut could be in March. The yield on US government bonds dropped sharply as bonds rallied. UK inflation remains higher than the US and Europe and the Bank of England said it needs more evidence that inflation will continue to fall to target before it can cut rates. The yield on UK government bonds also fell as investors anticipate rate cuts soon.

Meanwhile, European government bonds also gained as falling inflation and weak economic growth in Germany and France added to expectations that the European Central Bank will also cut rates soon. The dollar rose against the euro and pound during January, but both stabilised after the rate decisions and Thursday's update on Eurozone inflation.



### US: TECH STOCKS STRUGGLE TO LIVE WITH AGGRESSIVE VALUATIONS

Falling US technology stocks dragged US equities lower mid-week after revenues from some of the biggest firms failed to meet expectations. Microsoft continues to benefit from the interest in artificial intelligence and it reported record quarterly earnings as revenue increased 18%. This beat analyst forecasts but shares fell back slightly following the announcement. Earnings at Google-owner Alphabet increased 13%, but advertising revenues were below forecast and shares fell around 5% following its update. Shares in chipmaker AMD also slid after its sales growth failed to live up to expectations.

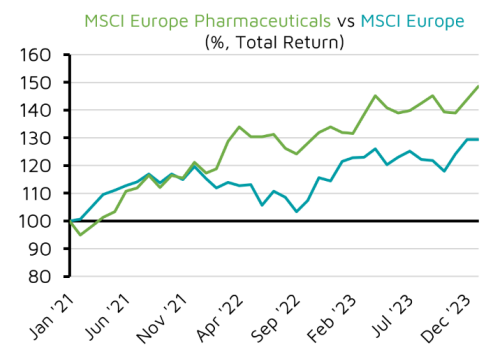
Up to now US tech stocks have kept pace with lofty sales growth targets but the recent rally means ever more aggressive expectations for growth in order to sustain rising valuations. Last week Tesla's shares slid 12% after it warned that sales would be notably lower this year due to less demand and more competition. Although there were gains from Amazon and Meta as they exceeded forecasts, Apple also dropped due to concerns about future sales.



### EQUITIES: NEW PRODUCTS DELIVER FOR EUROPE'S BIG PHARMA STOCKS

Novo Nordisk continues to benefit from bumper sales of weight-loss drug Wegovy and diabetes treatment Ozempic. Sales of both treatments continue to beat expectations and its shares rose further after it forecast double-digit sales growth this year. GlaxoSmithKline has also seen sales rise on the back of new drug launches as sales of its new treatment for respiratory virus RSV exceeded \$1bn in its first year.

Not all sector updates met expectations. Novartis reported revenue growth of 6% narrowly missed its forecast as sales of several new drugs fell short of expectations. Swiss pharma giant Roche reported disappointing sales in 2023 as revenue increased 1%, partly due to the strong Swiss franc. It forecast sales would return to mid-single digits in 2024. Sanofi also reported that exchange rates dragged on revenues but expects new products to return the company to growth. Overall, European and UK pharmaceutical stocks have performed well over the last few years as the sector has comfortably outperformed the broader market.



Data sourced from FE Analytics, OECD and Yahoo Finance

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