

Shares rally on hopes of interest rate cuts



The prospect of interest rate cuts has helped push stock markets around the world to record highs

Global share prices rallied to record highs in March, fuelled by signals that major central banks are on course to cut interest rates. The US Federal Reserve (Fed) sent stock markets soaring after officials held interest rates once again in a range between 5.25% and 5.5%, and maintained their forecast for three rate cuts this year.

Meanwhile, the UK stock market climbed higher after the Bank of England kept borrowing costs unchanged at 5.25% for the fifth month in a row and said the economy is moving in the right direction for rate cuts. The European Central Bank (ECB) also left its key interest rate unchanged at a 22-year high of 4.5% for the fourth month.

The Swiss National Bank became the first to start loosening policy in March after it cut interest rates by 0.25 percentage points to 1.5%. With inflation finally being brought under control, June is now looking an increasingly likely start date for the start of a global cutting cycle.

UK inflation falls

UK inflation fell to 3.4% in February, the lowest level for two and a half years, which was led by a decline in the rate of food price rises. The drop in inflation adds to expectations that the Bank of England will cut interest rates in the summer.

Chancellor Jeremy Hunt delivered his Spring Budget. He announced a 2p cut to National Insurance, a new tax on vaping and an increase to the salary threshold for claiming child benefit.

The UK economy returned to growth in January after slipping into recession at the end of last year. GDP rose 0.2% in January, meaning the recession could be the shortest ever if the trend continues. However, unemployment edged up to 3.9%.

US inflation ticks up

US inflation rose to 3.2% in February, highlighting the challenge faced by the Fed in its battle to slow price rises. While inflation is within striking distance of the 2% target, the economy remains strong. Employers added 275,000 jobs in February, as the labour market

continues to grow. However, the unemployment rate rose to 3.9% from 3.7% in January. Americans picked up their spending in February with retail sales rebounding from the previous month.

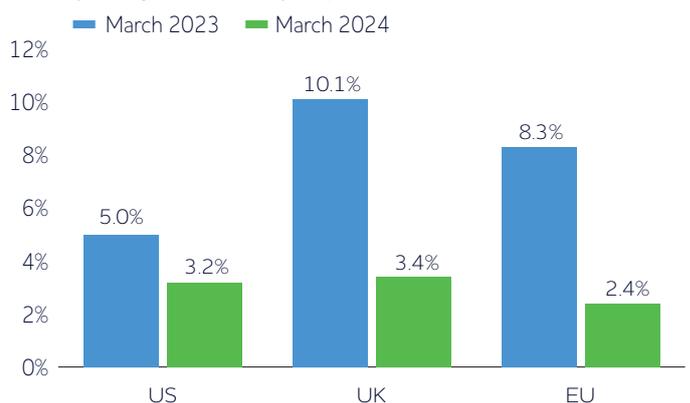
Meanwhile, European shares hit record highs, bolstered by upbeat company forecasts from the retail and utilities sector. Annual inflation across the euro area eased to 2.6% in February, but remains above the ECB's target. After avoiding a recession at the end of last year, business activity is close to stabilising, according to the latest surveys.

Good news for China's economy

China's economy is showing signs of improvement, but the property market remains under pressure. Industrial output rose 7% from a year earlier, and retail sales increased by 5.5%, bolstered by strong activity during the Lunar New Year. However, the property sector remains sluggish due to debt issues despite a flurry of government measures to boost the industry. Consumer prices have risen for the first time in six months, but it is still too early to say whether deflation is over.

Figure 1: What a difference a year makes

Annual inflation rates have fallen substantially across all major developed regions over the past year.



Source: Bloomberg.

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