State of Play

Banking on a better 2024

14 December 2023

This week marks the final time this year that the Bank of England (BoE), the Federal Reserve (Fed) and the European Central Bank (ECB) announce their latest interest rates decisions and share their insight on the path for interest rates as we head into 2024. After a challenging year, does the latest economic data support a continued pause, or will the central banks change direction? The Commercial Team at Santander Asset Management shares their thoughts in the final State of Play of the year.

Key highlights from this week's State of Play

- Three ducks in a row
- The names Bond

Three ducks in a row

Today (14 December) marks the BoE's final monetary policy meeting of 2023, with the BoE choosing to continually pause interest rates at 5.25%.[1] The consensus view is that the cost of borrowing will stay elevated at a 15-year high until halfway through 2024. Looking back to September, we know their decision to leave rates unchanged was finely balanced but ultimately correct considering the slew of challenges facing the economy in the final quarter of the year. What we commonly refer to as 'a higher for longer approach' now appears to be the accepted mantra, given the continued pressure posed by headline and wage inflation.

The BoE has stated that they will be closely monitoring UK wage inflation data a potential source of stubborn inflation.[2] The latest figures released on 12 December showed a decline to 7.2%, including bonuses from the summer peak of 8.5%.[3] While this represents a welcome fall, it does, however, mean that wage growth, in real terms, with current inflation (CPI) at 4.6%, continues to rise.[4] Questions as to whether this fall will be enough for the BoE to turn the dial and look to cut rates in the medium-term remain.

Looking towards the US, the Fed also chose to hold interest rates for their third meeting in a row, keeping rates at a 22-year high.[5] The Fed has chosen to pause despite Fed Chair Jerome Powell reminding the markets: 'It would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance, or to speculate on when policy might ease'.[6] The latest US inflation figures released on 12 December help support the market view that rates have peaked, the US Consumer Price Index increased 3.1% in November from year-ago levels—slightly down from October's 3.2% rate.[7] Market analysts will be keen to digest his view on the path of rates in 2024 and what that could mean for the economy in the final weeks of 2023 and into 2024 and beyond.

In contrast to the UK and US, the ECB increased rates in September, but have followed suit today (14 December) in keeping interest rates unchanged.[8] President Christine Lagarde has previously said that economic growth was at risk, but inflation was still at too high a level.[9] She has previously made no commitment either way as to whether the ECB was done with increasing rates, despite economic data being broadly supportive of leaving rates unchanged. More recently however, governing council members have acknowledged that the tide has turned and the next move in rates will be to cut in 2024.[10] Given that in the third quarter of this year, the French economy contracted, and the German economy didn't experience much growth in 2023, markets are anticipating the cuts starting in the second quarter of 2024.[10]

The names Bond

The festive season for many wouldn't be the same without a Bond film or two! (**Warning:** Spoiler alert) If you have seen the latest film, you may be somewhat unclear as to the future of the franchise. However, the future decisions from central banks could pave a clear direction for another type of bond in 2024.

One of the main financial beneficiaries at this point in the interest rate cycle, where market expectations are that the central banks next moves will be down, are bonds (debt to either Governments or Companies), often referred to as fixed income.

A key characteristic of bonds is the inverse relationship between the price (capital) and the yield (income). As interest rates fall or as the expectation that interest rates will fall, then the yield will also fall. This however, will correspond with a rise in the price of the bond, the extent to which is subject to a number of nuances, but broadly speaking, when one goes up or down, then the other does the opposite.

For example, 10-year UK gilt yields, a key benchmark for bonds, have declined from a high on 17 August 2023 of 4.76% to 3.68% as of 14 December.[11] It may not sound much, but in bond terms, it is a clear signal as to the expected downward trajectory of interest rates and also gives investors in bonds, whether a 007 bond fan or not, an extra gift this festive season.

State of Play will now be taking a holiday break, returning in the new year with our views on what you might expect from markets and asset classes in 2024. In the meantime, from all of us here at Santander Asset Management UK, we wish you a very happy Christmas and a prosperous 2024.

The value of seeking guidance and advice

It is important to seek advice and guidance from a professional financial adviser who can help to explain how to build an appropriate financial plan to match your time horizons, financial ambitions and risk comfort. If you already have a plan in place or have already invested, it is important to allocate time to review this to ensure this remains on track and appropriate for your needs.

Note: Data as at 14 December 2023.

[1] Bank of England, 14 December 2023
[2] FXStreet, 8 December 2023
[3] Office for National Statistics, 12 December 2023
[4] Office for National Statistics, 15 November 2023
[5] US Federal Reserve, 13 December 2023
[6] CNBC, 11 December 2023
[7] US Bureau of Labor Statistics, 12 December 2023
[8] European Central Bank, 14 December 2023
[9] Euronews, 11 December 2023
[10] FXStreet, 8 December 2023
[14] Financial Times, 13 December 2023

Learn more!

Investing can feel complex and overwhelming, but our educational insights can help you cut through the noise. Learn more about the Principles of Investing here.

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