Stock markets rise as US eyes interest rate cuts ahead

Stock markets have soared globally after the US Federal Reserve hinted that interest rate cuts lay ahead – a signal that is unlikely to be repeated on this side of the Atlantic.

The FTSE 100 was almost 2% higher – aided by a weakening dollar – while the more domestically focussed FTSE 250 was 3% up on the hope borrowing costs would soon start to ease in the world's largest economy.

The US central bank had said on Wednesday evening, when it kept rate policy unchanged, that there was no immediate need for a hike because inflation had "eased over the past year."

Officials held the rate at its current 22-year high of 5.25% to 5.5% for the third time in a row.

Similar in tone to the Bank of England, which kept its interest rate steady on Thursday, Fed chair Jerome Powell told a news conference that "no one is declaring victory" yet.

He added: "Inflation is still too high and ongoing progress in bringing it down is not assured."

But Fed officials forecast that rates would likely be cut to 4.6% by the end of next year.

The Bank of England, however, maintained its stance against the prospect for a cut in the foreseeable future.

Its hawkish stance helped the pound climb further versus the dollar and took some of the gloss off the stock market gains, with both main UK indices easing off from intraday highs.

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Global stocks cheer US rate cut prospects

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Inflation eased sharply in the UK to a two-year low of 4.6% in figures released last month.

Rob Clarry, investment strategist at wealth manager Evelyn Partners, said of the market response: “The S&P 500 and Nasdaq gained about 1.4% last night (Wdnesday), while the US 10-year yield fell below 4% having topped 5% as recently as September.

“Rate cut optimism has been further fuelled in the UK by weak growth data this week that showed an unexpected fall for gross domestic product in October.

“The FTSE 100 index is up more than 2%… as money markets have moved to price in as many as four 25bps cuts from the MPC from early next summer – which would mean a Bank Rate as low as 4.25% by the end of 2024.”

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From November: ‘Inflation is still too high’

Nicholas Hyett, from investment firm Wealth Club, added: “The question now is when the Bank starts cutting rates.

“Leave it too long and the cure could yet prove worse than the disease.”