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Mixed feelings on the US stock exchanges

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US stock exchanges apa blog

US stock exchanges: increasing volatility

After a good start to the US reporting season, the tide on the US stock exchanges turned last week. Disappointing figures from the technology sector overshadowed the good results from major US banks, obliterating the Dow Jones' profits for the year and even dipping it into the red. The technology index Nasdaq Composite, on the other hand, still shows positive year-to-date figures, but has lost around 850 points in October alone, which could mean the weakest October since 2008. A brief surge on Thursday failed to recover the losses.

Towards the end of the week, the weak results of Amazon and Google's parent Alphabet had a particularly strong impact. Despite billion-dollar profits, both companies disappointed the very high market expectations. The quarterly revenues of both companies failed to meet projections, and analysts and investors appeared to be disappointed in their growth rates. A few days prior, the results of IBM had disappointed investors with declines in both sales and profits, while positive figures from Intel and Facebook weren't sufficient to mitigate the pessimistic sentiment.

Investors are already looking ahead to 2019

However, corporate figures are not the only reason for the current volatility in sentiment. According to experts, investors are already looking ahead to 2019 – where the outlook for corporate profits has recently become a little more grim as a result of macroeconomic developments. Ongoing trade wars, more volatile oil prices due to political tensions between the US and Saudi Arabia, the budget dispute between the EU and Italy, and the faltering Brexit negotiations are fueling increasing concerns about the state of the global economy.

The latest US economic report, the so-called "Beige Book", published by the Federal Reserve was rather restrained and saw robust but less dynamic growth for the US economy. At 3.5 per cent, annualised growth in Q3 was significantly weaker than in the previous quarter (Q2 2018: 4.3 per cent), but managed to just exceed expectations.

According to the Fed, the US economy chiefly suffers from uncertainty about further trade policy developments. The US is currently in dispute with China about its trade policy. However, the conflict is also taking its toll on the People's Republic, with 6.5 per cent in Q3 of 2018 year over year marking the weakest growth since 2009.

The situation on the stock markets is exacerbated further by rising key interest rates in the US. The central bank raised its key interest rate corridor to 2.00–2.25 per cent, indicating four further hikes until the end of 2019. Some central bankers have even spoken out in favour of one more hike in 2018. As a result of higher interest rates, US bond yields have also risen significantly again. The higher interest rate on the bond market tends to make investments in equities less attractive and recently put a strain on the stock markets.

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