

# WEEKLY MARKET UPDATE

January 22, 2024

## Last Week Review

**Modest losses for diversified portfolios last week.** Diversified portfolios slid further into negative territory in 2024 year-to-date with a 0.6% loss that was mostly driven by fixed income. Global equities were flat for the week as non-U.S. losses offset U.S. gains (the S&P 500 exceeded its prior January 2022 high). While the U.S. is now able to avoid a government shutdown through early March, geopolitical risk continues to be elevated. Interest rates pushed higher globally including respective 24 and 18 basis-point (bps) increases for the 2-year (4.38%) and 10-year Treasury yields (4.12%).

**U.S. retail sales end 2023 on a high note.** In the U.S., December retail sales data proved stronger than expected with both headline (0.6%) and control group (0.8%) month-over-month figures accelerating from last month. The data is consistent with a solid holiday spending season and should flow favorably into fourth quarter GDP figures. Outside the U.S., U.K. inflation data was higher than expected with headline inflation increasing from 3.9% to 4.0% on a year-over-year (y/y) basis (first increase since early 2023) and core inflation remaining at 5.1% y/y. While airfares were a notable driver, the increase in inflation was relatively broad-based across the services side of the economy. Finally, economic data coming out of China was fairly in-line with expectations, though somewhat weak in the context of the favorable year-over-year comparisons with last year's restricted economic activity due to zero-Covid policies – also likely reflecting continued challenges in the property sector.

**Rate cut expectations take a step back.** In response to last week's economic data and central banker public comments, expectations for major developed market central bank rate cuts in 2024 were pared back somewhat. Across both European Central Bank and Federal Reserve official comments, messaging leaned towards being in no rush to cut rates in the very near term while also highlighting the risk and potential consequences of easing policy too soon. Implied odds of a Fed March rate cut declined from about 80% to 50% throughout the course of last week. The movement in expected 2024 central bank rate cuts was roughly similar across the U.S., U.K. and Europe – with implied odds phasing out approximately one rate cut last week. Nonetheless, investors still anticipate more than 100 bps of easing for all three areas in 2024.

**Steady earnings season so far.** 52 S&P 500 companies (10%) have reported fourth quarter earnings. Aggregate earnings growth is on-track for -2% y/y growth with revenue growth of 3% y/y. Earnings reports from large banks have not contained any major negative surprises related to broader consumer and corporate financial health. Most banks have been more optimistic around the outlook for capital market activity in 2024.

## This Week Preview

**Red Sea update.** Risk of broader Middle East conflict remains as the Houthis fired missiles at shipping vessels and the U.S. responded with further airstrikes against the Houthis. Broader financial market impacts have been contained although Asia-to-Europe shipping routes (both shipping rates and transit times) are an area of focus.

**Heavy week of economic data and central bank meetings.** Flash Purchasing Manager's Index (PMI) data will be released on Wednesday for the U.S. and Europe. Services readings are expected to remain more constructive versus manufacturing. Also, the first reading of 4Q2023 U.S. GDP growth comes out on Thursday followed by Personal Consumption Expenditures (PCE) inflation data on Friday. On the central bank side, meetings this week include the Bank of Japan (BOJ; Tuesday), the Bank of Canada (BOC; Wednesday) and the European Central Bank (ECB; Thursday). Investors expect no BOJ policy change but will look for hints of a potential rate hike to exit negative rate policy later this year. Investor expectations currently point to roughly 40% odds of this happening by April. Meanwhile, the BOC and ECB are both expected to remain on hold with the possibility of rate cuts later on in the first half of 2024.

**Earnings season continues.** 74 S&P 500 companies from a variety of sectors report this week. Notable earnings releases include Netflix (NFLX; Tuesday), Procter & Gamble (PG; Tuesday), Tesla (TSLA; Wednesday) and Visa (V; Thursday).

## FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	724	0.0%	-0.3%
S&P 500	4,840	1.2%	1.5%
MSCI Europe (\$)	1,952	-2.2%	-3.3%
U.S. Dollar (DXY)	103.29	0.9%	1.9%
Gold (\$/oz)	2,029	-1.1%	-2.1%
WTI Crude Oil (\$/bbl)	73.41	1.0%	2.5%
10-year Treasury (%)	4.12	0.18	0.24
10-year German Bund (%)	2.34	0.16	0.32
U.S. Investment Grade OAS (%)	0.90	-0.01	-0.03
U.S. High Yield OAS (%)	3.38	0.00	0.15

ΔW = Weekly change, ΔYTD = Year-to-date change

## LAST WEEK'S DATA

	Prior	Survey	Actual
Tu China Fixed Asset Inv. y/y	3.0%	2.9%	3.0%
Tu China Ind. Production y/y	6.8%	6.8%	6.8%
Tu China Retail Sales y/y	7.4%	8.0%	7.4%
W UK CPI Core y/y	5.1%	4.9%	5.1%
W Retail Sales m/m	0.6%	0.4%	0.6%
W Europe CPI Core y/y	3.4%	3.4%	3.4%
W Europe CPI y/y	2.9%	2.9%	2.9%
Th Japan CPI y/y	2.6%	2.5%	2.6%
Th Japan CPI Core	3.7%	3.7%	3.7%
Th Initial Jobless Claims	187k	205k	187k

Survey = Bloomberg consensus. U.S. data unless otherwise stated.

## THIS WEEK'S DATA

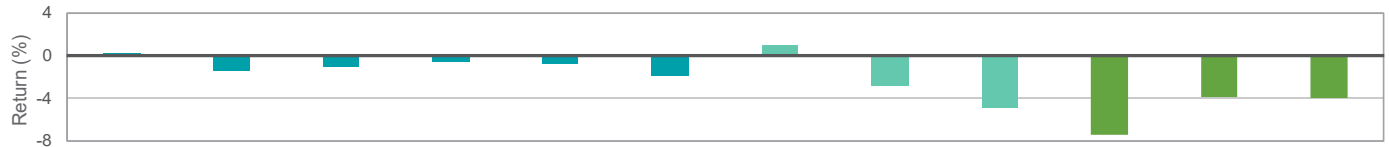
	Prior	Survey	Actual
Tu Japan Mfg PMI	47.9	n.a.	-
Tu Japan Composite PMI	50.0	n.a.	-
W UK Manufacturing PMI	46.2	46.7	-
W Europe Services PMI	48.8	49.0	-
W Europe S&P Mfg PMI	44.4	44.7	-
W S&P U.S. Services PMI	51.4	51.0	-
W S&P U.S. Mfg. PMI	47.9	47.5	-
Th Initial Jobless Claims	187k	200k	-
F PCE Deflator y/y	2.6%	2.6%	-
F PCE Core y/y	3.2%	3.0%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.

Source: Bloomberg. Data as of 1/19/2024.

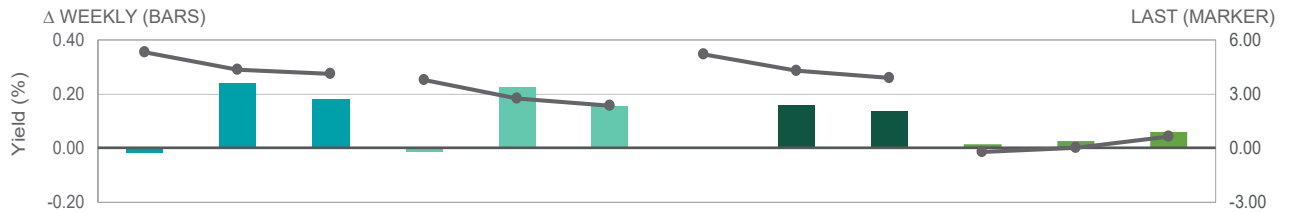


**ASSET CLASS RETURNS** ■ Δ Year-to-date



	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Inv. Grade	Muni.	TIPS	High Yield	Emerg. Markets	U.S.	Dev. Ex-U.S.	Emerg. Markets	NR	GRE	GLI
Δ WEEKLY	0.1	-1.1	-0.8	-0.7	-0.5	-1.5	1.1	-2.1	-2.5	-3.9	-2.8	-3.6
Δ YEAR-TO-DATE	0.3	-1.4	-1.0	-0.6	-0.7	-1.9	1.0	-2.8	-4.8	-7.4	-3.8	-4.0

**INTEREST RATES** ■ Δ Weekly (left) ● Last (right)



	UNITED STATES			EUROZONE (GERMANY)			UNITED KINGDOM			JAPAN		
	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year
Δ WEEKLY (LHS)	-0.02	0.24	0.18	-0.01	0.22	0.16	0.00	0.16	0.14	0.01	0.03	0.06
LAST (RHS)	5.34	4.38	4.12	3.76	2.73	2.34	5.22	4.32	3.93	-0.19	0.04	0.67

**CURRENCY RETURNS**

	DXY (\$ Index)	TW\$ (Trade Wt)	CAD (Canada)	INR (India)	CNY (China)	GBP (UK)	EUR (Euro)	MXN (Mexico)	AUD (Aussie)	CHF (Switz.)	KRW (Korea)	JPY (Japan)
Δ WEEKLY	0.9	0.8	-0.1	-0.2	-0.4	-0.4	-0.5	-1.3	-1.3	-1.8	-1.9	-2.2
Δ YEAR-TO-DATE	1.9	2.0	-1.4	0.2	-1.3	-0.2	-1.3	-0.7	-3.2	-3.1	-3.6	-4.8

Note: Currency returns are in relation to USD; DXY and TW\$ are against a basket of currencies.

**S&P 500 SECTOR RETURNS**

	Tech	Comm. Services	S&P 500	Financials	Cons. Discr.	Industrials	Health Care	Cons. Staples	Materials	Real Estate	Energy	Utilities
Δ WEEKLY	4.3	2.0	1.2	1.0	0.5	0.3	-0.7	-0.9	-1.5	-2.1	-3.0	-3.7
Δ YEAR-TO-DATE	5.0	4.4	1.5	0.8	-1.5	-1.3	2.4	0.3	-3.9	-3.4	-4.3	-3.8

Source: Northern Trust Asset Management, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 1/19/2024.

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