

WEEKLY MARKET UPDATE

January 29, 2024

Last Week Review

Risk assets charge ahead. A 0.8% gain for the 60/40 portfolio last week helped it climb out of negative territory year-to-date. Global equities were up 1.3% on the week, with emerging markets supported by a ~3% gain for China equities and developed equities up 1-2%. In an up-and-down week, Treasury yields ended slightly higher. The 2-year Treasury yield lost 4 basis points (bps) and the 10-year Treasury yield gained 1 bps. Credit spreads tightened even further below longer-term averages. Natural resources (+2.4%) outperformed other real assets while oil climbed higher.

U.S. inflation eases and growth remains strong. The Fed's preferred price measure, Personal Consumption Expenditures (PCE), contained no major surprises and showed continued progress on disinflation. Core PCE gained 0.2% last month, bringing the year-over-year (y/y) level down to 2.9% from 3.2%. The 6-month annualized rate held at 1.9% and the 3-month annualized rate fell to 1.5%. Core services ex-housing was hotter at 0.3% on the month, but the y/y level eased to 3.3%. Other data confirmed that the U.S. consumer continued to spend at a solid clip toward the end of last year. Real disposable income softened but still grew at a healthy level of 4.2% y/y. Personal consumption was the largest contributor to the strong Q4 real GDP print (3.3%), though most other components were also additive. Unexpected improvement in the flash Purchasing Managers' Index (PMI) data also supported economic optimism last week.

Developed central banks wait for key policy decisions. The European Central Bank (ECB) made no major policy changes, but its broader communication leaned slightly dovish. Euro area government bond yields declined as the central bank communicated growing confidence that inflation is moving lower. However, the ECB remains data dependent and stated that it is premature to cut interest rates. The Bank of Japan (BOJ) also met last week and as expected made no major policy changes. Governor Ueda indicated more confidence in the prospects of 2% trend inflation. Investors expect the BOJ to raise its policy rate in April following the Shunto wage negotiations. The People's Bank of China delivered a surprise 50-bp cut to its reserve requirement ratio as part of a broader effort to stabilize its economy and financial markets. China equities rallied, but there is still concern on the ability of such action to restore confidence.

Lackluster earnings season so far. About a quarter of S&P 500 companies have reported earnings so far. Reported sales growth has surprised by ~1%, with earnings coming in a little more than 4% worse than expected. Earnings growth is on pace to finish Q4 down around 1% y/y, but this could rise to positive territory given the historical tendency of companies to surprise to the upside throughout the reporting season.

This Week Preview

U.S. jobs report follows the Fed decision. Investors will likely pay close attention to the messaging surrounding the Fed decision on Wednesday and what it portends for future rate cuts. Investors assign just under a 50% chance of a cut in March, with a little over 5 cuts priced in through year end. The Employment Cost Index (ECI) and JOLTS data will be released prior to the decision, but other key economic releases – such as the U.S. jobs report and manufacturing PMI – aren't scheduled for release until later in the week. Regarding the January U.S. jobs report, consensus projections include slower but still robust jobs added (180k versus 216k prior), a slight uptick in the unemployment rate to 3.8% from 3.7%, and unchanged wage growth at 4.1% y/y.

Europe CPI headlines non-U.S. data. Preliminary readings for euro area headline and core Consumer Price Index (CPI) are projected to slightly ease to 2.7% and 3.2% y/y, respectively. The Bank of Japan is scheduled to issue the Summary of Opinions for its January meeting, which may provide more color on the central bank's forward-looking views. Elsewhere, ongoing conflict in the Red Sea remains a concern for investors.

Big Tech earnings week. Earnings season continues with a significant number of companies set to report this week. This includes some of the largest companies in the world by market cap. Google (GOOG) and Microsoft (MSFT) kick off the week on Tuesday, followed by Apple (AAPL), Amazon (AMZN) and Meta (META) on Thursday.

FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	734	1.3%	1.0%
S&P 500	4,891	1.1%	2.6%
MSCI Europe (\$)	2,009	2.9%	-0.5%
U.S. Dollar (DXY)	103.43	0.1%	2.1%
Gold (\$/oz)	2,017	-0.6%	-2.6%
WTI Crude Oil (\$/bbl)	78.01	6.3%	8.9%
10-year Treasury (%)	4.14	0.01	0.26
10-year German Bund (%)	2.30	-0.04	0.28
U.S. Investment Grade OAS (%)	0.87	-0.03	-0.06
U.S. High Yield OAS (%)	3.25	-0.13	0.02

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

LAST WEEK'S DATA

	Prior	Survey	Actual
Tu Japan Mfg PMI	48.0	n.a.	48.0
Tu Japan Composite PMI	51.1	n.a.	51.1
W UK Manufacturing PMI	47.3	46.7	47.3
W Europe Services PMI	48.4	49.0	48.4
W Europe S&P Mfg PMI	46.6	44.7	46.6
W S&P U.S. Services PMI	52.9	51.0	52.9
W S&P U.S. Mfg. PMI	50.3	47.5	50.3
Th Initial Jobless Claims	214k	200k	214k
F PCE Deflator y/y	2.6%	2.6%	2.6%
F PCE Core y/y	2.9%	3.0%	2.9%

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

THIS WEEK'S DATA

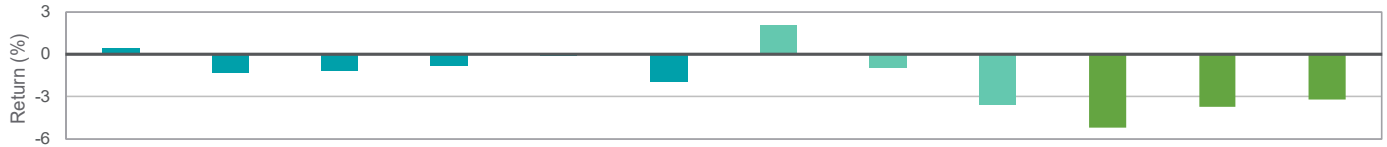
	Prior	Survey	Actual
Tu China Mfg PMI	49.0	49.2	-
Th Europe Unemployment Rate	6.4%	6.4%	-
Th Europe Flash CPI y/y	2.9%	2.7%	-
Th Europe CPI Core y/y	3.4%	3.2%	-
Th ISM Manufacturing PMI	47.4	47.0	-
Th Initial Jobless Claims	214k	210k	-
F China Composite PMI	52.6	n.a.	-
F Unemployment Rate	3.7%	3.8%	-
F Δ Nonfarm Payrolls	216k	180k	-
F Avg. Hourly Earnings y/y	4.1%	4.1%	-

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

Source: Bloomberg. Data as of 1/26/2024.



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	0.1	-0.1	-0.2	0.6	0.0	1.1	1.9	1.4	2.4	0.1	0.9
Δ YEAR-TO-DATE	0.4	-1.3	-1.1	-0.8	-0.1	-2.0	2.1	-0.9	-3.5	-5.2	-3.7	-3.2

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	-0.04	0.01	-0.03	-0.11	-0.04	0.00	0.03	0.04	0.03	0.02	0.05
LAST (RHS)	5.35	4.35	4.14	3.73	2.63	2.30	5.22	4.35	3.96	-0.16	0.05	0.72

CURRENCY RETURNS

	CHF (Switz.)	CNY (China)	TW\$ (Trade Wt)	KRW (Korea)	DXY (\$ Index)	GBP (UK)	JPY (Japan)	INR (India)	CAD (Canada)	AUD (Aussie)	EUR (Euro)	MXN (Mexico)
Δ WEEKLY	0.5	0.2	0.2	0.2	0.1	0.0	0.0	-0.1	-0.2	-0.3	-0.4	-0.4
Δ YEAR-TO-DATE	-2.6	-1.1	2.2	-3.4	2.1	-0.2	-4.8	0.1	-1.5	-3.5	-1.7	-1.1

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

S&P 500 SECTOR RETURNS

	Energy	Comm. Services	Financials	S&P 500	Tech	Industrials	Cons. Staples	Utilities	Materials	Health Care	Real Estate	Cons. Discr.
Δ WEEKLY	5.1	4.5	1.9	1.1	0.9	0.9	0.8	0.4	0.3	-0.2	-0.5	-1.4
Δ YEAR-TO-DATE	0.6	9.1	2.7	2.6	6.0	-0.4	1.1	-3.4	-3.6	2.2	-3.8	-2.8

Source: Northern Trust Asset Management, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 1/26/2024.

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