WEEKLY MARKET UPDATE

January 8, 2024

Last Week Review

Sluggish start to 2024 after a strong finish to 2023. The 60/40 portfolio declined 1.4% last week. There were losses across both equities and fixed income as interest rates increased. The sluggish start comes on the heels of a strong finish to what was a remarkable year for financial markets in 2023. Last December, interest rates continued to move lower amid easing price pressures and expectations of a Fed pivot to lower rates in early 2024. Meanwhile, the U.S. economy continued to show resilience. The 60/40 portfolio registered a 4.7% monthly gain with abnormally strong returns from both equities and fixed income. Global equities increased 5.3% with all three major regions up and an improvement in breadth within the U.S. markets. On the fixed income side, investment grade gained 3.8% and 2- and 10-year Treasury yields ended roughly 45 basis points lower each. Global real estate was also a standout performer – up 9.2% – with support from lower interest rates and expectations for non-recessionary activity.

Working toward more normal inflation levels. The December Fed minutes contained no major surprises. Fed officials recognized inflation progress and the potential for rate cuts this year, but overall, the minutes leaned against dovish market pricing regarding the timing of cuts. In the leadup to last week's U.S. jobs report (see below), U.S. economic data was broadly supportive of continued disinflation. The ISM manufacturing Purchasing Managers' Index (PMI) ticked up, but at 47.4 it remains below 50 (contractionary). Also, JOLTS data suggested continued normalization in the U.S. labor market. Job openings, the quits rate and hires rate all moved lower.

Stronger than expected U.S. jobs report. Despite meaningful downward revisions to prior jobs added, the December jobs report was solid. More jobs were added than expected (216k versus 175k), the unemployment rate was unchanged at 3.7% and wages grew 0.4% month-over-month (4.1% year-over-year). The participation rate declined to 62.5% from 62.8%, but most of the increase was concentrated outside of the prime-age cohort. The data leaned on the hawkish side for investors expecting six rate cuts from the Fed this year. However, shortly after the jobs data was released, there was a miss in the ISM services PMI at 50.6 versus 52.5 expected – with sizeable weakness in the employment component (43.3 versus 51.0 expected).

Europe yields move up on inflation data. Flash Europe Consumer Price Index (CPI) data was in-line with expectations. Headline CPI grew 2.9% year-over-year (y/y) versus 2.4% prior and core CPI decelerated to 3.4% y/y from 3.6%. Euro area government bond yields moved higher following the release. Investors see the odds of a European Central Bank (ECB) rate cut in March as roughly even, with an 86% chance by April.

FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	715	-1.6%	-1.6%
S&P 500	4,697	-1.5%	-1.5%
MSCI Europe ($)	1,998	-1.1%	-1.1%
U.S. Dollar (DXY)	102.41	1.1%	1.1%
Gold ($/oz)	2,050	-1.1%	-1.1%
WTI Crude Oil ($/bbl)	73.81	3.0%	3.0%
10-year Treasury (%)	4.05	0.17	0.17
10-year German Bund (%)	2.16	0.13	0.13
U.S. Investment Grade OAS (%)	0.97	0.04	0.04
U.S. High Yield OAS (%)	3.53	0.30	0.30

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

LAST WEEK'S DATA

		Prior	Survey	Actual
W	ISM Manufacturing PMI	46.7	47.1	47.4
W	JOLTS Job Openings	8,852k	9,300k	8,790k
W	China Composite PMI	51.6	n.a.	52.6
Th	Japan Composite PMI	49.6	n.a.	50.0
Th	Initial Jobless Claims	220k	210k	202k
F	ISM Non-Mfg. Composite	52.7	52.5	50.6
F	Unemployment Rate	3.7%	3.8%	3.7%
F	Δ Nonfarm Payrolls	173k	175k	216k
F	Avg. Hourly Earnings y/y	4.0%	3.9%	4.1%
F	Europe Flash CPI y/y	2.4%	2.9%	2.9%

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

This Week Preview

Middle East tensions escalate. There were several developments last week that drew attention to geopolitical tensions stemming from the Middle East. Among them, a senior Hamas leader was assassinated, and Iranian-backed Houthi rebels continued to ramp up attacks on shipping vessels in the Red Sea. Roughly 12% of global trade transits the Red Sea and persistently higher shipping rates resulting from re-routing away from the area could complicate inflation. Investors will continue to analyze these risks – in the Red Sea and broader Israel-Hamas conflict – for any growth and inflation impacts.

U.S. inflation release on Thursday. Core CPI is expected to remain close to 0.3% month-over-month (m/m), which would bring the y/y level down to 3.8% from 4.0%. Headline CPI is expected to increase 0.2% m/m, which would mark an increase from 0.1% last month and bring the y/y level to 3.2% from 3.1%. Beyond the inflation data, policy officials from the Fed and ECB are scheduled to speak throughout the week. Investors will listen in for any pushback against market pricing for rate cuts.

Earnings season begins. Fourth quarter earnings season unofficially kicks off on Friday with financials companies JPMorgan (JPM), Bank of America (BAC), Wells Fargo (WFC) and Citigroup (C) among some of the first major U.S. companies to report. Investors expect aggregate U.S. sales to grow 3% y/y and earnings 1% y/y. This would put 2023 earnings growth at just under 1% versus ~12% expected in 2024.

THIS WEEK'S DATA

		Prior	Survey	Actual
M	China CPI y/y	-0.5%	-0.4%	-
Tu	Germany Ind. Prod. y/y	-3.5%	-4.0%	-
Tu	Europe Unemployment Rate	6.5%	6.5%	-
Tu	China M2 Money Supply	10.0%	10.1%	-
Th	CPI y/y	3.1%	3.2%	-
Th	CPI Core y/y	4.0%	3.8%	-
Th	Initial Jobless Claims	202k	210k	-
F	UK Ind. Prod. y/y	0.4%	0.8%	-
F	China Imports y/y	-0.6%	0.0%	-
F	China Exports y/y	0.5%	1.6%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
Source: Bloomberg. Data as of 1/5/2024.

NORTHERN TRUST

Weekly Market Update

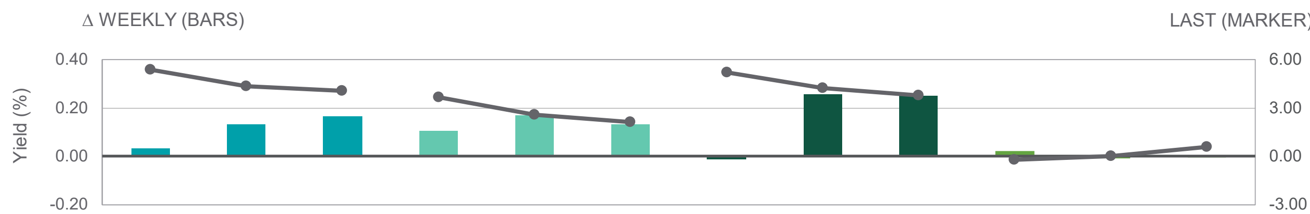
ASSET CLASS RETURNS

■ 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	-1.2	-0.3	-0.8	-1.1	-1.0	-1.8	-1.4	-1.9	-1.0	-1.9	0.0
Δ YEAR-TO-DATE	0.1	-1.2	-0.3	-0.8	-1.1	-1.0	-1.8	-1.4	-1.9	-1.0	-1.9	0.0

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)	0.03	0.13	0.17	0.11	0.17	0.13	-0.01	0.26	0.25	0.02	-0.01	0.00
LAST (RHS)	5.37	4.38	4.05	3.66	2.56	2.16	5.23	4.24	3.79	-0.19	0.04	0.61

CURRENCY RETURNS

	TW$ (Trade Wt)	DXY ($ Index)	MXN (Mexico)	INR (India)	GBP (UK)	CNY (China)	EUR (Euro)	CAD (Canada)	CHF (Switz.)	AUD (Aussie)	KRW (Korea)	JPY (Japan)
Δ WEEKLY	1.1	1.1	0.5	0.1	-0.1	-0.7	-0.9	-0.9	-1.0	-1.5	-1.9	-2.5
Δ YEAR-TO-DATE	1.1	1.1	0.5	0.1	-0.1	-0.7	-0.9	-0.9	-1.0	-1.5	-1.9	-2.5

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

S&P 500 SECTOR RETURNS

	Health Care	Utilities	Energy	Financials	Cons. Staples	Comm. Services	Materials	S&P 500	Real Estate	Industrials	Cons. Discr.	Tech
Δ WEEKLY	2.1	1.8	1.1	0.4	0.1	-1.1	-1.4	-1.5	-1.9	-2.1	-3.4	-4.0
Δ YEAR-TO-DATE	2.1	1.8	1.1	0.4	0.1	-1.1	-1.4	-1.5	-1.9	-2.1	-3.4	-4.0

Source: Northern Trust Asset Management, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 1/5/2024.