

WEEKLY MARKET UPDATE

December 18, 2023

Last Week Review

Rally ensues in heavy central bank week. It was a solid week for most corners of the markets, including the 60/40 portfolio which finished up 2.1% on gains across equities and fixed income. The rally came on the heels of a more dovish than expected Federal Reserve meeting (see below). Investors pulled forward their expectations for Fed rate cuts and the 2- and 10-year Treasury yields finished the week sharply lower, down 28 and 31 basis points (bps), respectively. Despite less dovish non-U.S. central bank communication (see below), European government bond yields also fell materially.

Mixed CPI print with broader trend still lower. U.S. Consumer Price Index (CPI) was roughly in-line with expectations. On a year-over-year (y/y) basis, headline CPI fell to 3.1% from 3.2%, and the core measure was unchanged at 4.0%. The month-over-month (m/m) changes picked up 10 bps each versus the prior readings with headline at 0.1% and core at 0.3%. Stickiness in the core reading was mainly driven by shelter (0.4% m/m), transportation (1.1%), used vehicles (1.6%) and medical services (0.6%). Core services ex-housing picked up to 0.4% m/m. Nonetheless, the 6-month annualized change in core CPI (2.9%) remains encouraging and Producer Price Index data released later in the week supported the broader disinflation narrative.

Fed mentions rate cuts, intends to proceed carefully. As widely expected, the Federal Reserve kept its policy rate unchanged at 5.25-5.50%. Investors focused on the updated Summary of Economic Projections (SEP) and commentary surrounding the release. The revised SEP showed a median projection of three 25-bp rate cuts in 2024 (up from two). Median projections for 2024 real economic growth and core Personal Consumption Expenditures were revised down to 1.4% y/y and 2.4% y/y, respectively. In the post-meeting press conference Chair Powell mentioned the Fed will proceed carefully, but he noted progress and that rate cuts are beginning to come into view.

Non-U.S. central banks push against rate cuts. The European Central Bank kept its key policy rates unchanged and accelerated the timing of its plans for balance sheet normalization. Updated staff forecasts showed a slower path for growth and inflation but core inflation remaining above target. President Lagarde pushed against market expectations for rate cuts, stressing the need to see lower labor costs first. The Bank of England (BOE) also left its policy rate unchanged. Three of nine members voted for a rate hike, highlighting the BOE's more hawkish skew relative to other developed market central banks. Elsewhere, China held its annual Central Economic Work Conference. It signaled a modestly supportive fiscal stance while refraining from pledges of broad-based aid as it seeks to achieve an expected growth target of around 5% in 2024.

This Week Preview

Investors assess the likelihood of rate cuts. Across the ensuing weeks, investors will follow comments from global monetary policymakers with an eye toward gauging if and to what extent central bankers push against market expectations for rate cuts. The evolution of economic and inflation data also remains key to future central bank policy decisions. U.S. Personal Consumption Expenditures (PCE) is scheduled to be released on Friday. Core PCE is projected to decline to 3.3% y/y from 3.5%. Headline PCE is expected to decelerate to 2.8% y/y from 3.0%. Data on U.S. personal income and consumption will also be released alongside the inflation print. Also, Japan CPI will be released on Thursday. Core CPI is expected to decline to 3.8% y/y from 4.0%. Notably, the print will be released after the Bank of Japan (BOJ) policy decision on Tuesday.

Bank of Japan policy decision. The BOJ is widely expected to keep its key policy rate unchanged at -0.1% when it announces its decision on Tuesday. In stark contrast to expectations for rate cuts across most other developed market central banks, there is a lot of anticipation that the BOJ will exit negative interest rate territory next year. Investors are pricing in around 3 rate hikes from the BOJ during 2024.

Final Weekly Market Update for 2023. Due to the shortened schedule in the next two weeks because of the Christmas and New Year's Day holidays, this is the final Weekly Market Update for the year. The next edition will be published on January 8.

FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	716	2.6%	20.9%
S&P 500	4,719	2.5%	24.9%
MSCI Europe (\$)	1,986	2.2%	18.6%
U.S. Dollar (DXY)	102.55	-1.4%	-0.9%
Gold (\$/oz)	2,021	1.1%	10.7%
WTI Crude Oil (\$/bbl)	71.43	0.3%	-11.0%
10-year Treasury (%)	3.91	-0.31	0.04
10-year German Bund (%)	2.01	-0.26	-0.55
U.S. Investment Grade OAS (%)	0.94	-0.04	-0.27
U.S. High Yield OAS (%)	3.36	-0.24	-1.34

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

LAST WEEK'S DATA

	Prior	Survey	Actual
Tu CPI y/y	3.2%	3.1%	3.1%
Tu CPI Core y/y	4.0%	4.0%	4.0%
Th China Fixed Asset Inv. y/y	2.9%	3.0%	2.9%
Th China Ind. Production y/y	4.6%	4.6%	6.6%
Th China Retail Sales y/y	7.6%	12.5%	10.1%
Th Initial Jobless Claims	221k	221k	202k
F Europe Services PMI	48.7	49.0	48.1
F Europe S&P Mfg PMI	44.2	44.5	44.2
F S&P U.S. Services PMI	50.8	50.7	51.3
F S&P U.S. Mfg. PMI	49.4	49.3	48.2

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

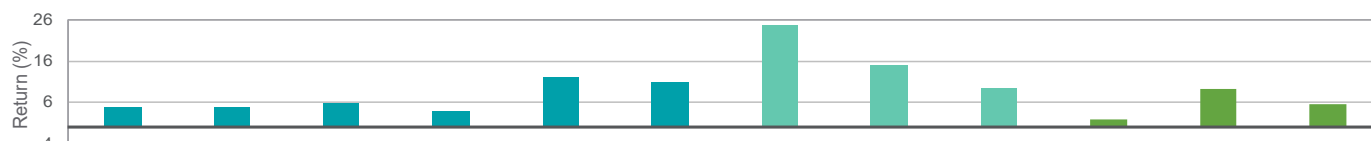
THIS WEEK'S DATA

	Prior	Survey	Actual
Tu Europe CPI Core y/y	3.6%	3.6%	-
Tu Europe CPI y/y	2.4%	2.4%	-
W UK CPI Core y/y	5.7%	5.6%	-
W UK CPI y/y	4.6%	4.3%	-
Th Japan CPI y/y	3.3%	2.8%	-
Th Japan CPI Core	4.0%	3.8%	-
Th Initial Jobless Claims	202k	215k	-
F U of Mich. Sentiment	69.4	69.4	-
F PCE Deflator y/y	3.0%	2.8%	-
F PCE Core y/y	3.5%	3.3%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
Source: Bloomberg. Data as of 12/15/2023.

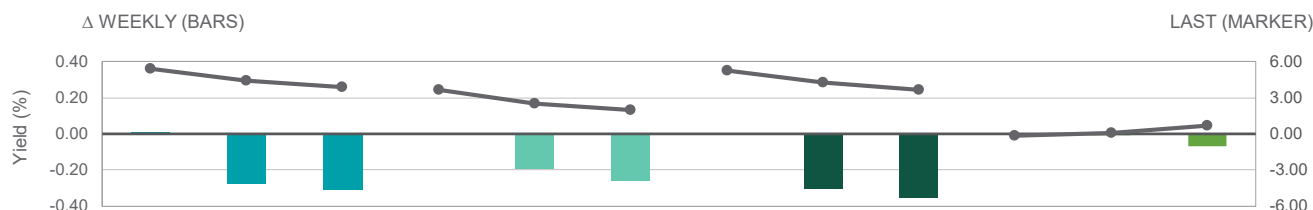


ASSET CLASS RETURNS ■ Δ Year-to-date



	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	2.2	1.1	2.1	1.9	1.3	2.9	2.7	2.6	3.0	5.5	2.6
Δ YEAR-TO-DATE	4.9	4.9	5.9	3.9	12.2	10.9	24.8	15.2	9.5	1.9	9.4	5.6

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)	0.01	-0.28	-0.31	0.00	-0.19	-0.26	-0.01	-0.30	-0.35	0.00	-0.01	-0.07
LAST (RHS)	5.38	4.44	3.91	3.65	2.50	2.01	5.27	4.29	3.69	-0.16	0.08	0.70

CURRENCY RETURNS

	JPY (Japan)	AUD (Aussie)	CAD (Canada)	EUR (Euro)	CHF (Switz.)	GBP (UK)	KRW (Korea)	MXN (Mexico)	CNY (China)	INR (India)	TW\$ (Trade Wt)	DXY (\$ Index)
Δ WEEKLY	2.0	1.8	1.5	1.2	1.1	1.1	0.8	0.8	0.7	0.5	-1.4	-1.4
Δ YEAR-TO-DATE	-7.8	-1.7	1.3	1.8	6.2	4.9	-2.8	13.3	-3.1	-0.3	-0.2	-0.9

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

S&P 500 SECTOR RETURNS

	Real Estate	Materials	Industrials	Financials	Cons. Discr.	Tech	S&P 500	Energy	Cons. Staples	Health Care	Utilities	Comm. Services
Δ WEEKLY	5.6	4.0	3.6	3.6	3.5	2.5	2.5	2.5	1.6	1.6	0.9	-0.1
Δ YEAR-TO-DATE	11.1	11.3	16.5	11.0	42.3	57.3	24.9	-1.6	-1.4	0.0	-7.0	50.3

Source: Northern Trust Asset Management, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 12/15/2023.

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