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Global Markets Weekly Update

Markets rose amid cooling inflation signals

Highlighted Regions

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U.S.

Stocks build on gains in broad advance

The S&P 500 Index built on its strong gains over the previous two weeks and moved above the 4,500 barrier for the first time since September. The week's advance was also notably broad, with an equally weighted version of the S&P 500 Index outperforming its market-weighted counterpart by a full percentage point. The Russell 1000 Value Index also outperformed its growth counterpart and moved back into positive territory for the year to date. The small-cap indexes also outperformed.

T. Rowe Price traders noted that macroeconomic factors appeared to take center stage as the third-quarter earnings reporting season wound down, but some prominent results from retailers also provided a view into the health of the consumer. In particular, shares in Target surged nearly 18% on Wednesday after beating consensus earnings expectations and offering better-than-expected guidance for the fourth quarter. Shares in rival Walmart seemed to rise on the news and reached a record high. The stock then fell back over 8% on Thursday, however, after the company lowered guidance on increasing customer caution and falling prices for some goods.

Inflation surprises on the downside

The week's closely watched inflation reports arguably confirmed that what might be bad news for retailer revenues could be good news for interest rates. On Tuesday, the Labor Department reported that its headline consumer price index had remained unchanged in October, driven in part by a sharp drop in energy costs. Core (less food and energy) prices rose 0.2%, bringing the year-over-year increase to 4.0%, the slowest pace in two years. Producer price inflation, reported Wednesday, also surprised on the downside.

In what was perhaps another hopeful inflation sign, the American Farm Bureau released its annual Thanksgiving dinner survey on Wednesday, which showed that a typical dinner was expected to cost 4.5% less in 2023, due to falling prices for seven out of 11 food items (including turkey). The meal still cost considerably more (USD 61.17 versus USD 53.31) than it had in 2021, however.

Wednesday's retail sales report from the Commerce Department may have also encouraged investors. Retail sales (which are unadjusted for inflation) fell 0.1% in October, less than expected and due in part to a drop in gasoline and auto sales. While home-related spending on furniture and building materials continued to decline, consumers continued to increase spending at bars and restaurants and online.

Long-term yields hit two-month low

The cooling inflation signals fostered another drop in long-term Treasury yields, with the benchmark 10-year note touching an intraday low of around 4.40% on Friday, its lowest level since mid-September. (Bond prices and yields move in opposite directions.) In the tax-exempt municipal primary market, our traders observed a trend of accelerating new issues into recent market strength and ahead of the short holiday week.

U.S. investment-grade corporate bonds generated strong performance going into Friday, supported by falling U.S. Treasury yields. Meanwhile, high yield bonds tracked equities higher following the release of the encouraging inflation data, and the leveraged loan market maintained its recent firmness as loan investors mainly focused on earnings and individual company headlines.

Index	Friday's Close	Week's Change	% Change YTD
DJIA	34,947.28	664.18	5.43%
S&P 500	4,514.02	98.78	17.57%
Nasdaq Composite	14,125.48	327.37	34.96%
S&P MidCap 400	2,536.78	97.16	4.38%
Russell 2000	1,797.77	92.44	2.07%

This chart is for illustrative purposes only and does not represent the performance of any specific security. ***Past performance cannot guarantee future results.***

Source of data: Reuters, obtained through Yahoo! Finance and Bloomberg. Closing data as of 4 p.m. ET. The Dow Jones Industrial Average, the Standard & Poor's 500 Stock Index of blue chip stocks, the Standard & Poor's MidCap 400 Index, and the Russell 2000 Index are unmanaged indexes representing various segments of the U.S. equity markets by market capitalization. The Nasdaq Composite is an unmanaged index representing the companies traded on the Nasdaq stock exchange and the National Market System. Frank Russell Company (Russell) is the source and owner of the Russell index data contained or reflected in these materials and all trademarks and copyrights related thereto. Russell® is a registered trademark of Russell. Russell is not responsible for the formatting or configuration of these materials or for any inaccuracy in T. Rowe Price's presentation thereof.

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Europe

In local currency terms, the pan-European STOXX Europe 600 Index ended 2.82% higher as financial markets increased bets on central banks cutting interest rates soon. Major stock indexes also rose sharply. Germany's DAX climbed 4.49%, Italy's FTSE MIB gained 3.49%, and France's CAC 40 Index added 2.68%. The UK's FTSE 100 Index advanced 1.95%.

European government bond yields declined as data indicated that inflationary pressures cooled. The yield on the 10-year German government bond ticked lower on the view that central banks might need to embark on rate cuts next year. Swiss, French, and Italian sovereign bond yields also eased. Meanwhile, the yield on the 10-year UK government bond slipped toward 4.1%.

ECB leaders hint rates to stay higher for some time

European Central Bank (ECB) President Christine Lagarde said at a Financial Times event that policymakers expected inflation to pick up at the start of next year as base effects drop out of the annual comparison. Lagarde hinted, however, that even if inflation accelerates again, another interest rate increase may not be required: "We are at a level where we believe that, if kept long enough—and this long enough is not trivial—will take us to the 2% medium-term target." She added that there will probably be no change over the "next couple of quarters."

Elsewhere, Vice President Luis de Guindos also pushed back against market expectations for rate cuts. He reiterated that monetary policy would be at a sufficiently restrictive level for as long as necessary to bring inflation back to target.

Meanwhile, the latest data confirmed that the annual inflation rate in the eurozone fell to 2.9% in October, the lowest level since July 2021.

UK inflation rate falls; pay growth close to record level

Annual consumer price inflation in the UK slowed more than expected to 4.6% in October from 6.7% in September, prompting financial markets to increase their bets on interest rate cuts next year. Core inflation, which excludes food and energy, and services inflation also decelerated.

Before the data were released, Bank of England Chief Economist Huw Pill said that an expected drop in inflation would still leave it "much too high" relative to the 2% target.

The UK labor market remained tight. Wages, including bonuses, rose 7.7% in the three months through September compared with 7.9% in the previous period. And the Office for National Statistics estimated that unemployment was unchanged at 4.2% in the three months through October.

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Japan

Japan's stock markets rose over the week, with the Nikkei 225 Index generating a 3.1% return and the broader TOPIX Index up 2.3%. Gains were supported by upside earnings surprises to date in the earnings season, while weak third-quarter gross domestic product (GDP) data failed to dent sentiment. Risk appetite was boosted by the latest U.S. inflation data, which undershot expectations, signaling that an economic soft landing may be imminent and raising hopes that interest rates may have peaked.

The yield on the 10-year Japanese government bond (JGB) fell to 0.72% from 0.85% at the end of the previous week, tracking weakness in U.S. bond yields. This prompted the Bank of Japan (BoJ) to reduce the offer amounts for its regular buying of JGBs, with which it seeks to limit volatility in yield movements.

Anticipation of an end to U.S. monetary policy tightening lent support to the yen, which finished the week higher, in the JPY 149 against the USD range. However, the Japanese currency continued to hover around a 33-year low as investors remain focused on interest rate differentials. Japan's government has repeatedly said that it will take every possible measure in response to volatility in the foreign exchange market. Despite heightened concerns about the economic impact of the weak yen, BoJ Governor Kazuo Ueda asserted during the week that there are both positives and negatives—namely, it helps boost exports and global firms' profits but poses a drag in the form of higher prices for imports.

Japan's economy shrinks more than expected in third quarter

lJapan's third-quarter GDP data showed that the economy shrunk by a worse-than-expected 0.5% over the three months (1.2% on an annualized basis) The main drag was from private inventories, while inflation and yen weakness continued to weigh on private consumption and sluggish global demand hit exports. The contraction follows two straight quarters of growth and suggests that Japan's economic recovery remains fragile.

There were some signs of easing inflation in October, as Japan's corporate goods price index, which measures wholesale inflation, rose 0.8% year over year, down from 2.2% in September. The slowdown was due largely to falling global commodity prices.

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China

Chinese equities were mixed after official indicators highlighted the fragility of the country's economy. The Shanghai Composite Index rose 0.51% while the blue chip CSI 300 Index lost 0.51%. In Hong Kong, the benchmark Hang Seng Index gained 1.46%, according to FactSet.

Official data for October offered a mixed picture of China's economy. Industrial production and retail sales grew more than forecast last month from a year earlier, while fixed asset investment growth missed estimates due to a dip in infrastructure growth and real estate investment. Unemployment remained steady from September. Separately, new bank loans rose an above-consensus RMB 738.4 billion in October but plunged from September's RMB 2.31 trillion, largely driven by a seasonal downturn in corporate lending.

In monetary policy news, the People's Bank of China (PBOC) injected RMB 1.45 trillion into the banking system via its medium-term lending facility compared with RMB 850 billion in maturing loans, its largest net injection since December 2016. The medium-term lending facility rate was left unchanged as expected. Liquidity injections are seen as a part of the central bank's ongoing efforts to counter economic headwinds as weak consumer confidence and property market woes remain a drag on the country's post-pandemic recovery. Many economists predict that the PBOC will step up policy easing for the rest of 2023, including a possible cut to its reserve ratio requirement, as the government ramps up measures to boost China's economy.

Property data underscore stubborn downturn

Official readings showed that the housing market's slump deepened in October. Investment in property development fell by an above-consensus 9.3% in the first 10 months of the year compared with a 9.1% decline in the January to September period, according to the National Bureau of Statistics. Property sales slumped by 7.8% between January and October versus the same period in 2022. New home prices in 70 of China's largest cities declined 0.38% last month from September and marked the largest month-on-month drop since February 2015.

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Other Key Markets

Hungary

As measured by the consumer price index (CPI), inflation in Hungary in October was 9.9% versus 12.2% in September and expectations for a reading of 10.4%. According to T. Rowe Price credit analyst Ivan Morozov, this downside inflation surprise seems to have been driven by food and nonalcoholic prices, as well as core prices. Core CPI momentum slowed to 0.1%, down from 0.2% to 0.3% in the last several months. Overall, Morozov sees this trend as a dovish development that, if it continues, could bring year-over-year inflation down to 6% by the end of the year. This could pave the way for the central bank to continue reducing interest rates.

Czech Republic

The Czech government also released its latest inflation data late last week. In October, CPI inflation was measured at 8.5%, which was mostly in line with expectations of 8.4% but higher than September's 6.9% reading. According to Morozov, the October pickup in inflation was due to administrative price changes, but he expects only a temporary inflation impact from these price changes that should disappear by January 2024. Excluding these price changes, year-over-year inflation slowed from 5.2% in September to 3.8% in October.

Morozov believes that the central bank refrained from cutting interest rates at its latest policy meeting because policymakers anticipated a pickup in inflation. However, with core inflation momentum slowing further, Morozov would not be surprised to see the central bank begin reducing interest rates in the next couple of months, especially as headline inflation declines due to base effects.

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