

MARKETS & ECONOMY | DECEMBER 29, 2023

Global Markets Weekly Update

Quiet trading week closes out 2023

Highlighted Regions

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U.S.

Stocks end mixed to close out strong year

The major benchmarks were mixed for the holiday-shortened week. The S&P 500 Index marked its ninth straight weekly gain—its longest stretch since 2004—and briefly moved within 0.53% of its all-time intraday high. The week closed out a strong year for all the major indexes, led by the Nasdaq Composite, which recorded its sixth-biggest annual gain since the index was launched in 1971. As was widely expected, trading volumes and market moves were muted through most of the week, with trading closed Monday and many investors out of the office.

Hopes rise for AI devices even as possible hurdle arises

The week brought several notable developments on the artificial intelligence (AI) front. On Wednesday, Bloomberg reported that Sam Altman, the CEO of ChatGPT creator OpenAI, and former Apple design chief Jony Ive recruited another top Apple executive, Tang Tan, to develop an AI device. Both Ive and Tan played roles in the development of the iPhone.

News of a possible impediment to the business models of OpenAI and other AI firms also arrived Wednesday, however. Reports emerged that The New York Times had filed suit against generative AI companies for copyright infringement, given that the media giant's content was being used to train ChatGPT and other large language models developed by these firms.

Data suggest modest slowdown to end the year

The week's economic calendar was also relatively thin but arguably had a negative overall tone. An index of Mid-Atlantic manufacturing activity, reported Wednesday, fell sharply in December and indicated the fastest pace of contraction since February. On Friday, a barometer of overall business activity in the Chicago region also surprised significantly on the downside and moved back into contraction territory. Pending home sales were flat in November, defying expectations for a modest increase given the recent drop in mortgage interest rates. Finally, weekly jobless claims rose unexpectedly to their highest level (218,000) since the start of the month.

U.S. Treasuries rallied early Wednesday as the Treasury's final auction of the year saw strong interest. (Bond prices and yields move in opposite directions.) The week was generally very quiet in fixed income markets, however. According to our traders, secondary trading volumes were limited in the municipal bond market, and ratios remained generally steady. Volumes were also light in the investment-grade and high yield corporate bond markets, although spreads tightened modestly for much of the week as investors favored risk assets.

Index	Friday's Close	Week's Change	% Change YTD
DJIA	37,689.54	303.57	13.70%
S&P 500	4,769.83	15.20	24.23%
Nasdaq Composite	15,011.35	18.38	43.42%
S&P MidCap 400	2,781.54	-5.99	14.45%
Russell 2000	2,027.07	-6.89	15.09%

Feedback

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 reached almost two-year highs, gaining 0.41% on growing optimism on interest rate cuts early next year. Major stock indexes were mixed. Germany's DAX added 0.22%, while Italy's FTSE MIB and France's CAC 40 were little changed. The UK's FTSE 100 rose 0.6%.

Inflation slows unexpectedly in Spain; economists see rate cuts in first half

A preliminary estimate of consumer price growth in Spain—the first major eurozone economy to report December inflation—showed headline prices slowing in December to 3.1% year over year instead of accelerating to 3.3%, as expected by economists polled by FactSet. The national statistics agency attributed the decline to a drop in motor fuel prices.

European Central Bank (ECB) policymaker Madis Muller said in a Bloomberg interview that the ECB is unlikely to raise rates again, given evidence of slowing inflation, while his Governing Council colleague Robert Holzmann said it is too early to talk about lowering borrowing costs and such a move in 2024 is anything but certain. However, most economists in a survey by the Financial Times newspaper expect the ECB to start cutting interest rates by the second quarter of 2024. Almost 60% of the 48 respondents predict inflation will reach the 2% target level next year, although only two of them expected a rate reduction before the end of March.

Nationwide says UK house prices fall; BoE's Bailey says policy will remain tight

The Nationwide Building Society's house price index was unchanged in December sequentially and down 1.8% over the year—the largest annual decline since 2008. A spokesperson said the UK housing market remained weak, with transaction levels 10% below pre-pandemic levels over the last six months. He noted that while mortgage rates had fallen recently, the company did not expect a “rapid rebound” in prices or activity for some time.

Meanwhile, Bank of England (BoE) Governor Andrew Bailey told The Chronicle newspaper that inflation may be just under 4% by the end of the first quarter of next year, but to reach the 2%, target rates would have to remain at levels that would restrict price pressures.

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Japan

Japan's stock markets ended higher, with the Nikkei 225 Index up 0.89% and the broader TOPIX Index rising 1.28% in subdued trading ahead of the New Year's holiday. Shares were supported by expectations that the Bank of Japan (BoJ) would continue with its ultralow interest rate policy. The Nikkei and the TOPIX posted their biggest annual gains in 2023 since 2013, climbing 28% and 25%, respectively. The Nikkei was the best-performing index in Asia.

Economic data were mixed and appeared to have little market impact. Unemployment held steady at 2.5% in November, and industrial output fell for the first time in three months but by much less than expected; however, retail sales rose strongly year over year as consumption continued to recover from the pandemic-induced slump.

The yield on the 10-year government bond eased slightly to 0.6% after a summary of opinions at the BoJ's December meeting showed that policymakers discussed an exit from the stimulus program. Several members, however, indicated there was no need to change the policy any time soon. The yen strengthened against the U.S. dollar to around JPY 141.

Ueda signals possible shift in policy, but board members in no rush

BoJ Governor Kazuo Ueda said that the likelihood of achieving the inflation target was “gradually rising,” and the central bank might consider a change in policy if the chance of achieving the 2% target in a sustainable manner rises “sufficiently.” He highlighted the significance of wage talks in the spring and said that the key is whether wages continue rising, leading to more increases in services prices. However, a summary of opinions at the central bank’s December policy meeting showed members were in no rush to exit the economic stimulus program, arguing that the central bank has “sufficient leeway” to wait for wage data.

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China

Chinese equities rose in the final week of trading for 2023 as the government announced new online game approvals and calmed fears about a potential clampdown on the gaming sector. The Shanghai Composite Index gained 2.06%, while the blue chip CSI 300 added 2.81%. In Hong Kong, the benchmark Hang Seng Index advanced 4.33%, according to FactSet.

Chinese regulators announced a bout of fresh approvals for new online games aiming to support the industry after a draft of new rules designed to curb spending caused stocks to plummet the prior week. Shares of Tencent, one of China’s largest online gaming companies, fell more than 12% amid concerns that the government may reinstate controls on big technology companies following its two-year crackdown that started in 2021, according to Bloomberg. However, stocks clawed back some of their losses as Beijing’s softer stance appeared to restore investor confidence.

Profits at industrial firms increased by 29.5% in November from the prior-year period and rose from October’s 2.7% gain, as Beijing’s latest raft of stimulus measures supported growth. For the first 11 months of 2023, profits fell by 4.4% from a year ago, slowing from a 7.8% contraction recorded in the first 10 months of the year. The latest report added to mixed messages about the economy, which missed forecasts on other fronts as consumer prices fell in November. Economists predict that China’s gross domestic product growth will slow to 4.6% in 2024 from 5.2% in 2023 as persistent property woes and growing deflationary pressures weigh on its outlook.

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Other Key Markets

Argentina

President Javier Milei, who took office earlier in December, sent an extensive reform bill to Congress that proposed significant changes to the tax system and electoral policy, among other areas of government. Key items included doing away with presidential primary elections; allowing 41 state enterprises to be privatized; instituting a broad export tax; and giving the president more legislative power over pensions, energy, security, and other areas through the end of 2025. Milei called for Congress to return from recess and consider the bill in a series of extraordinary sessions running through January 31, 2024. The omnibus bill came on the heels of an emergency decree issued a week earlier that proposed a wide range of reforms that would dramatically scale back the government’s role in the economy. A prominent labor union has called for a national strike in January in response to Milei’s sweeping proposals, which are also likely to encounter opposition in Argentina’s legislature.

Brazil

Official inflation data for the first half of December came in above expectations, with consumer prices increasing 4.72% annually and 0.40% on a month-over-month basis. An uptick in transportation costs contributed meaningfully to the monthly upside surprise. Separately, the labor ministry reported that net creation of formal jobs fell short of the consensus estimate in November. Nevertheless, Brazilian equities, as represented by the Bovespa Index, gained ground.

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