MARKETS & ECONOMY | JANUARY 26, 2024

Global Markets Weekly Update

U.S. economy ends 2023 on stronger note than expected

U.S.

Large-cap indexes move to records

Stocks recorded another week of gains, bringing the Dow Jones Industrial Average and the S&P 500 Index to new all-time highs and marking the 12th weekly advance out of the last 13 for the latter. The gains were relatively broad, although the small-cap Russell 2000 Index remained nearly 20% below its all-time intraday high.

T. Rowe Price traders noted that, given the lack of “Fedspeak” during the week—Federal Reserve officials were not making any comments or speeches ahead of the upcoming policy meeting—investors turned most of their focus to a building stream of fourth-quarter earnings reports. Major movers included Tesla, which fell sharply after the company missed both earnings and revenue estimates and warned of slower growth in 2024. Conversely, Netflix recorded solid gains after an upside surprise in subscriber additions.

Manufacturing heals somewhat as business spending picks up

The week’s economic calendar was also relatively light at the beginning but included some prominent surprises as the week progressed. A measure of manufacturing activity in the Mid-Atlantic region came in weaker than expected on Tuesday, mirroring downturns in a few other regional gauges reported the previous week. Also repeating the recent pattern, however, was an upside surprise in a national reading reported Wednesday, with the S&P Global flash manufacturing index jumping back into expansion territory—if barely—for the first time since April 2023 and reaching its highest level (50.3) since October 2022. S&P Global's services index also beat expectations and hit its best level (52.9) since June. (Readings above 50.0 indicate expansion.)

Thursday brought more signs of overall strength in business conditions, at least as 2023 came to an end. Orders for nondefense capital goods excluding aircraft, widely considered a proxy for business investment, rose 0.3% in December. The Commerce Department also issued its advance estimate of growth in gross domestic product, which came in at 3.3%, well above consensus expectations of around 2.0%. Over the year as a whole, the economy grew 2.5%, up from the 1.9% pace in 2022. The core personal consumption expenditure (PCE) price index, the Fed's preferred inflation gauge, rose 2.0% in the fourth quarter over the year before—right in line with expectations and the Fed's long-term target. Personal spending, reported Friday, rose 0.7% in December, beating expectations.

Rise in jobless claims keeps yields steady

Our fixed income traders reported that an upside surprise in weekly jobless claims on Thursday helped balance out some of the strong economic readings, leaving the benchmark 10-year U.S. Treasury note yield little changed for the week. (Bond prices and yields move in opposite directions.) The primary market appeared to take center stage in the tax-exempt municipal bond market, where new deals were generally met with strong oversubscription.

Conversely, there was light issuance in the investment-grade corporate bond market, although those bonds that came to market were oversubscribed. Bank bonds notably outperformed the broader market on Wednesday and Thursday. According to our traders, mostly positive risk sentiment also supported the performance of the high yield bond market. Investors in the bank loan market remained focused on the wave of refinancing announcements while secondary market activity was somewhat subdued.

Index	Friday's Close	Week's Change	% Change YTD
DJIA	38,109.43	245.63	1.11%
S&P 500	4,890.97	51.16	2.54%
Nasdaq Composite	15,455.36	144.39	2.96%
S&P MidCap 400	2,763.77	22.81	-0.64%
Russell 2000	1,978.33	33.94	-2.40%

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.

↑ Return to Top

Europe

In local currency terms, the pan-European STOXX Europe 600 Index ended 3.11% higher on encouraging corporate results and China's announcement of additional stimulus measures. Stocks also received a lift after the European Central Bank (ECB) left interest rates unchanged and appeared to signal a more dovish outlook. Most major stock indexes rose, with France's CAC 40 Index climbing 3.56%, Germany's DAX advancing 2.45%, and Italy's FTSE MIB tacking on 0.32%. The UK's FTSE 100 Index added 2.32%.

European government bond yields declined. The yield on the benchmark 10-year German bond slipped, as did yields on Swiss and French sovereign bonds of the same maturity.

ECB keeps rates steady; Lagarde's tone more dovish

The ECB kept its key interest rates unchanged at record highs and reiterated that monetary policy would stay at "sufficiently restrictive levels for as long as necessary" to bring inflation down to the 2% target.

However, ECB President Christine Lagarde stressed that policy decisions would still be guided by incoming economic and financial data. She reiterated that it was still "premature to discuss rate cuts," but she also seemed to strike a more dovish note by acknowledging that the disinflation process was working. The ECB also said that risks to economic growth "remained tilted to the downside." Financial markets appear to expect the ECB to start cutting rates in April or June.

Eurozone business shrinks for eighth month in a row but moderates

Eurozone business activity shrank for an eighth consecutive month in January but at a slower rate—a sign that the current economic downturn may be stabilizing. A first estimate of HCOB's eurozone composite Purchasing Managers' Index (PMI)—which combines activity in the manufacturing and services sectors—rose to 47.9 from 47.6 in December. A figure below 50 marks a contraction.

UK PMI better than expected

UK business activity rose more than expected in January, suggesting that the economy could avoid a recession. The preliminary S&P Global/CIPS UK composite PMI rose to 52.5, the highest level in seven months, from 52.1 in December. Even so, shipping disruptions in the Red Sea caused input prices in the manufacturing sector to rise for the first time since last April, which may contribute to a pickup in inflation.

↑ Return to Top

Japan

Japan's stock markets declined over the week, with the Nikkei 225 Index falling 0.6% and the broader TOPIX Index down 0.5%. While the Bank of Japan (BoJ) retained its ultra-accommodative stance, including its forward guidance, Governor Kazuo Ueda highlighted the central bank's progress toward achieving sustained inflation, raising some hopes that a shift in monetary policy could be on the horizon. These expectations were tempered to a degree later in the week by a softer-than-anticipated Tokyo area inflation print, a leading indicator for nationwide price trends.

Within the context of ongoing speculation about when Japan's negative interest rate policy could end, the yield on the 10-year Japanese government bond (JGB) rose to 0.71% from 0.66% at the end of the previous week. The yen strengthened to the high-JPY 147 range from around JPY 148 the prior week.

Bank of Japan stands pat, but says likelihood of achieving sustainable inflation is rising

At its January 22–23 meeting, the BoJ maintained its key short-term interest rate target at -0.1% and indicated that it will continue with its yield curve control policy, which regards the upper bound of 1.0% for 10-year JGB yields as a reference in its market operations.

Citing the effects of the recent decline in crude oil prices, the central bank revised down its outlook for consumer inflation, forecasting that the core consumer price index (CPI) will rise 2.4% year over year (y/y) in fiscal 2024, down from a 2.8% y/y forecast in October 2023. Nevertheless, its medium- to long-term inflation expectations have risen moderately, with CPI inflation likely to increase gradually toward achieving the 2.0% price stability target.

Indeed, the likelihood of hitting the inflation target is rising, according to BoJ Governor Kazuo Ueda, a necessary precondition for tweaking monetary policy. The central bank is watching for further evidence of a positive wage-inflation cycle and will then examine the feasibility of continuing its massive stimulus program.

Start of the spring wage negotiations

Businesses and labor unions kicked off the spring "shunto" negotiations to set nationwide wages for the new fiscal year amid high hopes that they will result in the biggest increases in pay in decades. The focus this year is on companies aiming for inflation-beating wage hikes, as has been pushed for by Prime Minister Fumio Kishida. Another focal point will be the extent to which wage increases extend to small and medium-sized companies.

↑ Return to Top

China

Chinese equities advanced after Beijing stepped in with forceful measures to support the economy. The Shanghai Composite Index rose 2.75%, while the blue chip CSI 300 gained 1.96%. In Hong Kong, the benchmark Hang Seng Index advanced 4.2%, according to FactSet.

The People's Bank of China (PBOC) said it would cut its reserve ratio requirement (RRR) by 50 basis points for most banks on February 5, marking the central bank's first cut in banks' required reserves this year. PBOC Governor Pan Gongsheng also announced that the central bank will lower interest rates by 25 basis points for refinancing and rediscounting loans to support agriculture and small businesses from January 25. The PBOC cut the RRR twice in 2023, with the last cut in September, and has reduced the RRR by a smaller 25 basis points in the past two years.

Chinese banks left their one- and five-year loan prime rates unchanged as expected after the PBOC kept its medium-term lending rate on hold the prior week. Many analysts predict that the central bank will continue to roll out pro-growth measures to revive consumer confidence, which has been hit by China's protracted property downturn and deflationary pressure.

In other news, Chinese regulators removed the draft rules imposed on online video games in late December that were aimed at curbing spending and rewards. The regulations wiped off nearly USD 80 billion in market value from some of China's largest gaming companies when they were first announced as investors grew concerned about the possibility of another crackdown on the sector.

↑ Return to Top

Other Key Markets

Mexico

On Wednesday, as reported by Reuters, the Mexican government issued inflation data for the first half of January. Headline inflation was measured at a year-over-year rate of 4.9%, which was higher than expected and higher than December's 4.7% year-over-year inflation reading. The underlying data indicate that higher costs of agricultural products were responsible for the increase. However, the 12-month core rate of inflation, which excludes food and energy costs, was measured at 4.8%, which was lower than the 5.1% reading for full-year 2023.

Türkiye (Turkey)

On Thursday, the central bank held its regularly scheduled meeting and raised its key policy rate, the one-week repo auction rate, from 42.5% to 45.0%. This rate increase was widely expected.

In the central bank's post-meeting statement, policymakers noted—as they have in the last few policy meetings—that the "existing level of domestic demand, stickiness in services inflation, and geopolitical risks" are continuing to support inflation pressures. However, they also noted that "domestic demand continues to moderate...as monetary tightening is reflected in financial conditions" and that factors such as improvement in "external financing conditions, strengthening in foreign exchange reserves, rebalancing in current account balance, and demand for Turkish lira denominated assets" are contributing to exchange rate stability and the effectiveness of monetary policy.

Policymakers concluded that "the monetary tightness required to establish the disinflation course is achieved and that this level will be maintained as long as needed...until there is a significant decline in the underlying trend of monthly inflation and until inflation expectations converge to the projected forecast range." While central bank officials believe they are finished raising rates, they did leave open the possibility that they may need to resume raising rates "if notable and persistent risks to inflation...emerge." They remain committed to bringing inflation down to 5% in the medium term.

Next Steps

- Get strategies and tips for today's market conditions.

Subscribe to T. Rowe Price Insights

Receive monthly retirement guidance, financial planning tips, and market updates straight to your inbox.

Subscribe Now

MARKETS & ECONOMY

Global Markets Monthly Update

Stay informed about global economic developments and our perspective on market conditions.

MARKETS & ECONOMY

Quarterly Market Review

Stay informed about global economic developments and our perspective on market conditions.

Return to Top