MARKETS & ECONOMY | FEBRUARY 2, 2024

Global Markets Weekly Update

U.S. jobs surprise on upside; Europe skirts recession

Highlighted Regions

- U.S.
- Europe
- Japan
- China
- Other Key Markets

U.S.

Large-cap benchmarks hit new highs, but small-caps struggle

The major indexes ended the week mixed amid a slew of significant earnings reports and economic data. The S&P 500 Index and Dow Jones Industrial Average moved to intraday highs, but the small-cap indexes recorded losses. The advance was also narrow, with an equally weighted version of the S&P 500 Index recording a modest loss. The week closed out the month of January with the S&P 500 advancing 1.6% over the month, while the equal-weight S&P 500 fell 0.90%, and the small-cap Russell 2000 Index declined nearly 4.0%.

It was the busiest week of the fourth-quarter earnings reporting season, with several releases from heavily weighted tech giants driving movements in the major benchmarks. The S&P 500 and Nasdaq Composite Index fell sharply on Wednesday, following lower-than-anticipated earnings guidance from Microsoft, Google parent Alphabet, and chipmaker Advanced Micro Devices. The benchmarks recovered much of their losses on Thursday, however, following upside earnings surprises from Amazon.com, Facebook parent Meta Platforms, and Apple.

Hopes fade for March rate cut

The week's scheduled Federal Reserve policy meeting, concluding Wednesday, also seemed to sway sentiment. Policymakers left short-term interest rates unchanged, as was widely anticipated, but at his post-meeting press conference, Fed Chair Jerome Powell stated that he didn't think it's likely that the Fed will cut rates in March. As a result, by the end of the week, futures markets were pricing in only a 20.5% chance of a rate cut at the Fed's next policy meeting, down from 47.7% the week before.

Chances of a rate cut seemed to diminish further on Friday, after the Labor Department reported that employers had added 353,000 nonfarm jobs in January, nearly double consensus estimates, while November's and December's gains were also revised higher, due in part to an annual benchmark revision. Average hourly earnings also surprised on the upside and rose 0.6%, bringing the year-over-year increase to 4.6%. The unemployment rate remained steady at 3.7%, but the average workweek shrunk unexpectedly from 34.3 to 34.1 hours. The data mirrored an upside surprise in job openings reported earlier in the week, which rose to 9.03 million in December, their highest level in three months.

Signs of healing in the manufacturing sector

The week also brought some reassuring news on the struggling manufacturing sector. Revisions to the January gauges of factory activity for both S&P Global and the Institute for Supply Management beat expectations when they were released on Wednesday, with the former indicating the best (if still moderate) pace of growth in the sector since September 2022.

The yield on the benchmark 10-year U.S. Treasury note rose in the wake of Friday's jobs report but still ended lower for the week. Along with a modest upside surprise in weekly jobless claims, another factor keeping a lid on yields may have been lower-than-expected borrowing needs figures from the Treasury Department, reported Tuesday. Similarly, a relatively light primary calendar and positive flows over the week were beneficial for the tax-free municipal market, according to our traders.

Conversely, several new deals were announced in the high yield market, but these were generally met with strong demand. Our traders noted that cash continued to build with over $12 billion in calls, coupon payments, and tenders returning to the market, providing technical support for the asset class. In the bank loan market, our traders observed that the share of names trading above par began to approach more normal levels after the previous few weeks of aggressive repricing activity.

Index	Friday's Close	Week's Change	% Change YTD
DJIA	38,654.42	544.99	2.56%
S&P 500	4,958.61	67.64	3.96%
Nasdaq Composite	15,628.95	173.59	4.11%
S&P MidCap 400	2,767.15	3.38	-0.52%
Russell 2000	1,962.73	-15.60	-3.17%

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 the week roughly flat. Major stock indexes were mainly softer. France's CAC 40 Index fell 0.55%, Germany's DAX lost 0.25%, and the UK's FTSE 100 Index declined 0.26%. Italy's FTSE MIB, however, gained 1.11%.

The yield on the benchmark 10-year German government bond approached a three-week low but ended the week near where it started. UK and Italian government bond yields likewise fell during the week, before rising on Friday to finish the week slightly higher.

Euro area dodges recession; inflation slows

The eurozone economy unexpectedly avoided a recession in the final quarter of 2023. Gross domestic product (GDP) during the period was unchanged compared with the previous three months and 0.1% higher than a year earlier. Quarterly expansions in Spain and Italy partially offset a contraction in Germany. Meanwhile, annual consumer price inflation continued to move in the right direction, with the headline rate slowing to 2.8% in January from 2.9% in December. The core rate, which excludes volatile food, energy, alcohol, and tobacco prices, also ticked lower to 3.3%.

BoE opens door to policy easing

The Bank of England (BoE) held its key interest rate steady at an almost 16-year high of 5.25% but appeared to signal that it would consider lowering it for the first time since consumer price inflation accelerated after the coronavirus pandemic. The BoE dropped its warning that rates could rise again, saying they would now be "kept under review." Governor Andrew Bailey cautioned that "we need to see more evidence that inflation is set to fall all the way to the 2% target, and stay there, before we can lower interest rates." Even so, he said that there had been a change in his thinking: "For me, the key question has moved from 'How restrictive do we need to be?' to 'How long do we need to maintain this position for?'"

UK housing market may be over the worst

More signs emerged that the housing market might be stabilizing as mortgage rates come down. The BoE said that net mortgage approvals for house purchases rose in December to a six-month high. Meanwhile, the Nationwide Building Society said its widely followed index of house prices was stronger than expected in January, rising 0.7% since December.

↑ Return to Top

Japan

Japan's stock markets rose over the week, with the Nikkei 225 Index gaining 1.1% and the broader TOPIX Index up 1.7%. A robust corporate earnings season lent support, with higher prices and strong tourism having provided a boost to domestically focused firms in particular.

Meanwhile, the 10-year Japanese government bond (JGB) yield fell to 0.68% from 0.71% at the end of the prior week. A surprisingly strong 10-year JGB auction exerted downward pressure on yields. In the currency markets, as the U.S. Federal Reserve pushed back against expectations of an interest rate cut in March, the yen strengthened to around the high-146 range against the U.S. dollar, from the low-148 range previously. Some signs of a hawkish tilt by the Bank of Japan (BoJ) underpinned the yen's gains.

BoJ says likely to reach a point where it can normalize policy

The Summary of Opinions at the BoJ's January monetary policy meeting reflected growing confidence among policy board members that the achievement of the price stability target has started to come in sight. They noted that there is increasing momentum toward achieving a virtuous cycle between wages and prices, given that wage hikes can be expected—including among small and medium-sized firms—and that the rate of increase in services prices has remained high.

Furthermore, after assessing the degree of macroeconomic effects of the Noto Peninsula earthquake by monitoring its impact for about the next one or two months, many believe the BoJ is likely to reach a point where it can normalize monetary policy. Nevertheless, even if the policy of negative interest rates is terminated, it is highly likely that accommodative financial conditions will be maintained.

Manufacturing conditions weaken in January

On the economic data front, Purchasing Managers' Index (PMI) data, collated by au Jibun Bank, showed that Japanese manufacturing conditions deteriorated modestly in January, with continued falls in output and new orders. Manufacturers also faced a steep rise in price pressures over the month, with cost burdens reportedly rising at a marked pace amid high raw materials, labor, and fuel prices.

↑ Return to Top

China

Stocks in China retreated as downbeat economic data and property sector headlines fueled investors' pessimism about the growth outlook. The Shanghai Composite Index fell 6.19%, its worst week since 2018, while the blue chip CSI 300 sank 4.63%, its biggest weekly loss since 2022, according to Bloomberg. Both benchmarks are trading at five-year lows. In Hong Kong, the benchmark Hang Seng Index gave up 2.62%, according to FactSet.

January's economic data provided a mixed picture of China's economy. The official manufacturing purchasing managers' index (PMI) rose to 49.2 in January from 49.0 in December amid improved production growth, but still lagged the 50-mark threshold separating growth from contraction. The nonmanufacturing PMI ticked up to an above-consensus 50.7 from 50.4 in December. On the other hand, the private Caixin/S&P Global survey of manufacturing activity remained steady at 50.8 in January, beating expectations and marking its third straight month of expansion.

A Hong Kong court ordered China Evergrande, formerly the country's largest property developer, to be liquidated after the company failed to reach a restructuring agreement with its creditors since it defaulted on its offshore bonds in December 2021. The focus now shifts to whether the ruling will be followed in mainland China, which has a separate legal system and where most of Evergrande's assets reside. Analysts are also concerned that the order to wind up Evergrande, which has as much as USD 327 billion in debt according to some estimates, could undermine China's financial system and further weaken confidence in the housing industry.

Property sales remain weak despite official intervention

The value of new home sales by the country's top 100 developers fell 34.2% in January from the prior-year period, roughly even with the 34.6% drop in December, according to the China Real Estate Information Corp. The report showed no sign of a turnaround in China's property crisis as falling home prices and construction delays have kept buyers on the sidelines, which in turn has increased pressure on indebted property developers and led Beijing to roll out intervention efforts to prop up the sector.

↑ Return to Top

Other Key Markets

Colombia

On Thursday, the Finance Ministry unveiled its 2024 Financing Plan, which included an update to macroeconomic forecasts and fiscal projections.

According to T. Rowe Price emerging markets sovereign analyst Aaron Gifford, many of the numbers were disappointing. For example, the government now projects a 1.0% of GDP deterioration in the primary balance after having recently reached a surplus. Also, the Finance Ministry now foresees a wider budget deficit of 5.3% of GDP in 2024 versus an earlier deficit projection of 4.4% for 2024 and an actual deficit of 4.2% in 2023.

Acknowledging the slowdown in economic activity—which, on Wednesday, prompted the central bank to reduce its key interest rate from 13.00% to 12.75%—the government is keen on offering some stimulus measures, which would be permitted under the fiscal rule. However, the Financing Plan has arrived just a couple of weeks after S&P Global Ratings changed its outlook for Colombia to "negative" from "stable." The credit rating agency warned that a credit rating downgrade could occur in the next two years if there are larger-than-anticipated current account deficits or if there is "unexpected fiscal slippage" in the government's financial situation.

Hungary

On Tuesday, the National Bank of Hungary (NBH) held its regularly scheduled meeting and reduced its main policy rate, the base rate, from 10.75% to 10.00%. The NBH also reduced the overnight collateralized lending rate—the upper limit of an interest rate "corridor" for the base rate—from 11.75% to 11.00%. In addition, the central bank lowered the overnight deposit rate, which is the lower limit of that corridor, from 9.75% to 9.00%.

According to the central bank's post-meeting statement, disinflation "has been widespread and persistent in the Hungarian economy" and the "general decline in domestic inflation continued at a rapid pace in December." Policymakers specifically cited that the annualized three-month change in core inflation has been around 3% since September 2023. They justified their rate cut decision with observations that disinflation has been stronger than expected and that "external and domestic demand pressures remain persistently low." Central bank officials also noted that the improving current account balance has improved the country's risk perception "despite a volatile global sentiment."

of any particular investor or class of investor. Please consider your own circumstances before making an investment decision.

Information contained herein is based upon sources we consider to be reliable; we do not, however, guarantee its accuracy. There is no guarantee that any forecasts made will come to pass.

Past performance is not a reliable indicator of future performance. All investments are subject to market risk, including the possible loss of principal. All charts and tables are shown for illustrative purposes only.

3369076

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.