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Global Markets Weekly Update

U.S. consumer confidence jumps as inflation fears recede

Highlighted Regions

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U.S.

Stocks end mixed as small-caps continue their comeback

A late rally helped the major indexes end flat to modestly higher for the week. The small-cap Russell 2000 Index outperformed the S&P 500 Index for the third time in the past four weeks, helping narrow its significant underperformance for the year-to-date period. Growth stocks built modestly on their lead over value shares, however. Within the S&P 500, energy stocks lagged as domestic oil prices fell below USD 70 per barrel for the first time since June.

Continuing enthusiasm over the potential of generative artificial intelligence (AI) appeared to be one factor in boosting the growth indexes and the technology-heavy Nasdaq Composite. Shares of Google parent Alphabet rose over 5% on Thursday after the company revealed its new AI model, Gemini, which can process text, code, audio, images, and video and can be incorporated into mobile applications. Meanwhile, Advanced Micro Devices rose nearly 10% on the same day after it announced the launch of a new generation of AI chips. Earlier in the week, Apple once again eclipsed USD 3 trillion in market capitalization and moved back near its summer all-time highs.

Consumers grow more optimistic even as labor market cools

The week's busy economic calendar seemed to be another major driver of sentiment. Friday's closely watched nonfarm payrolls report surprised modestly on the upside, with employers adding 199,000 jobs in November versus consensus expectations of around 180,000. The unemployment rate also surprised by falling back to 3.7% from a two-year high of 3.9% in October. Average hourly earnings rose 0.4%, above expectations, but the year-over-year increase remained at a consensus 4.0%.

The bigger surprise—and the bigger market reaction—seemed to be the University of Michigan's preliminary gauge of consumer sentiment in December, which jumped to its highest level since August on calming inflation fears. Survey respondents expected prices to increase by 3.1% in the coming year, down sharply from 4.5% in November and the lowest rate since March 2021. Gauges of consumer expectations and their assessment of current economic conditions also rose considerably.

The rest of the week's economic data were mixed. On Tuesday, data from both S&P Global and the Institute for Supply Management showed a modest pickup in services sector activity in November, but the Labor Department's count of October job openings fell much more than expected to 8.73 million, the lowest level since March 2021. October factory orders, which were reported Monday, also fell more than expected.

Yields take round trip to end little changed for the week

The data on job openings, in particular, seemed to drive a continued decrease in long-term interest rates over much of the week, with the yield on the benchmark 10-year U.S. Treasury note hitting an intraday low of 4.10% on Thursday. Yields rebounded in the wake of the payrolls report, however. According to our traders, technical conditions continued to support tax-exempt municipal bonds. Specifically, manageable supply, coupled with coupon payments—a source of reinvestment cash—contributed to the positive technical backdrop.

The investment-grade corporate bond market weakened relative to Treasuries among softer tones in the beginning of the week. Issuance came in slightly above expectations, and about half of the issues were oversubscribed. According to our traders, high yield bond investors were mainly focused on the very active primary market, as companies looked to refinance debt or issue new deals before year-end. Demand was especially strong for BB rated bonds with attractive coupons. The bank loan market maintained its firm tone as investors focused on the primary market, which saw a flurry of refinancing and repricing transactions.

Index	**Friday's Close**	**Week's Change**	**% Change YTD**
DJIA	36,247.87	2.37	9.35%
S&P 500	4,604.37	9.74	19.92%
Nasdaq Composite	14,403.97	98.94	37.62%
S&P MidCap 400	2,632.10	6.52	8.30%
Russell 2000	1,880.82	18.18	6.79%

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

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Europe

In local currency terms, the pan-European STOXX Europe 600 Index advanced for a fourth consecutive week, ending 1.30% higher. Stocks appeared to receive a lift from expectations that central banks could cut interest rate next year due to slowing inflation and signs that European economies have been faltering. Major stock indexes rose as well. France's CAC 40 Index climbed 2.46%, Germany's DAX gained 2.21%, and Italy's FTSE MIB added 1.59%. The UK's FTSE 100 Index tacked on 0.33%.

European government bond yields broadly ended lower as comments by some European Central Bank (ECB) policymakers fueled hopes that rate reductions could come sometime in the first half of 2024. The yield on the benchmark 10-year German bond slid toward its lowest levels so far this year. Italian government bond yields also declined. In the UK, the 10-year government bond yield fell to below 4% for the first time since mid-May on expectations that the Bank of England could start cutting borrowing costs by mid-2024.

ECB's Schnabel turns more dovish

ECB Executive Board member Isabel Schnabel signaled a shift to a dovish stance in an interview with Reuters, saying, "The most recent inflation number has made a further rate increase rather unlikely." Inflation has slowed sharply for three months in a row to just above the ECB's 2% target. Schnabel, the first policy hawk to change her view, also warned—as have other policymakers—that the fight against inflation is not over and that prices may rise again as budget subsidies expire and high energy prices fall out of annual comparisons. Meanwhile, Governing Council member Francois Villeroy de Galhau told a French newspaper that disinflation was happening more quickly than previously thought. "This is why, barring any shocks, there will not be any new rise in rates. The question of a rate cut could arise in 2024, but not right now," he said.

German economy struggles; jobless rate rises

Industrial output fell for a fifth consecutive month in October, sliding 0.4% sequentially, which was more of a contraction than the 0.2% increase called for in one consensus estimate. Factory orders unexpectedly slumped, dropping 3.7%. Meanwhile, the jobless rate rose to 5.9% in November, the highest level since May 2021.

UK housing market continues to weaken

Activity in the UK's construction sector fell sharply for a third month in a row in November due to a continued slump in homebuilding, according to a Purchasing Managers' Index compiled by S&P Global and the Chartered Institute of Purchasing and Supply.

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Japan

Japan's stock markets lost ground over the week, with the Nikkei 225 Index falling 3.4% and the broader TOPIX Index down 2.4%. Comments by Bank of Japan (BoJ) officials stoked speculation that the central bank may abandon its policy of negative interest rates earlier than anticipated, weighing on riskier assets. Equities came under further pressure as data showed that Japan's economy contracted by more than initially estimated in the third quarter of the year.

Amid perceived BoJ hawkishness, the yield on the 10-year Japanese government bond (JGB) rose to 0.77%, from 0.71% at the end of the previous week. A notably weaker-than-expected 30-year JGB auction was another factor that pushed yields higher.

Growing speculation about BoJ policy normalization saw the yen strengthen to the low-144 level against the U.S. dollar, its highest in nearly four months, from about 146.8 at the end of the prior week. The Japanese currency also gained in anticipation of reduced interest rate differentials with the U.S., where market consensus appears to be converging around the view that the Federal Reserve is done with raising rates for now.

Speculation grows about earlier-than-expected monetary policy shift

Comments by BoJ officials during the week were taken by some investors as suggesting that the central bank could be preparing for an earlier-than-expected shift in its ultra-accommodative monetary policy—and that the removal of its negative interest rate policy could come soon after any potential lifting of the BoJ's yield curve control policy.

One of the BoJ's two deputy governors, Ryozo Himino, speaking hypothetically, said that Japan's economy could benefit from an exit from ultra-loose monetary policy, as rising wages and prices would be favorable for households and firms. He nevertheless stressed that the BoJ should tread carefully.

Separately, BoJ Governor Kazuo Ueda stressed that the handling of monetary policy would get tougher in the new year, anticipating an even more challenging situation. He reiterated the importance of closely watching if a virtuous cycle of rising wages and prices becomes stronger.

Japan's economy shrank by more than expected in the third quarter

Japan's gross domestic product contracted by a bigger-than-estimated 2.9% on an annualized basis in the three months ended September, compared with an initial reading showing the economy had shrunk 2.1%. The downward revision was due to a larger drag from private inventories as well as slightly lower private consumption.

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China

Chinese equities fell after a credit downgrade on China's sovereign debt by Moody's underscored worries about its economic outlook. The Shanghai Composite Index declined 2.05%, while the blue chip CSI 300 gave up 2.4% after falling midweek to its lowest level in nearly five years. In Hong Kong, the benchmark Hang Seng Index fell 2.95%, according to FactSet.

Moody's cut its outlook for China's government bonds to "negative" from "stable" on Tuesday, saying that the country's debt-laden local governments and state firms posed downside risks to the economy. The ratings cut from the U.S. credit agency was the latest setback for financial markets in China, which is grappling with a yearslong property market downturn and flagging consumer and business confidence. In response, Beijing issued a flurry of pro-growth measures this year to shore up demand, although analysts say the measures have been insufficient to revive the economy.

Bearish sentiment about China's longer-term outlook appeared to lead investors to look past the private Caixin/S&P Global survey of services activity, which rose to an above-forecast 51.5 in November from October's 50.4. The gauge remained above the 50 threshold, indicating expansion for the 11th straight month and recorded its highest increase since August. The reading contrasted with the prior week's official nonmanufacturing Purchasing Managers' Index (PMI), which contracted for the first time in 12 months.

On the trade front, overseas exports rose an above-consensus 0.5% in November from a year earlier, reversing the 6.4% decline in October and marking the first increase in six months. However, imports unexpectedly fell by 0.6% in November, down from the 3% growth in October. The results were disappointing given the low base effect of China's pandemic lockdowns in the prior-year period, which significantly weighed on activity. Overall trade surplus rose to USD 68.39 billion, up from October's USD 56.5 billion.

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Other Key Markets

Poland

On Wednesday, the Polish central bank concluded its two-day policy meeting but decided to keep its key interest rate, the reference rate, at 5.75%.

According to the post-meeting statement, policymakers noted that inflation in Poland has been declining, while economic growth remains low but has recently increased. They also noted that the "labor market situation remains good and unemployment is low." In addition, central bank officials predicted that reduced cost pressures—as indicated by the considerable drop in producer prices over the last year—will "support a further decline in consumer price inflation in the coming quarters."

Nevertheless, policymakers justified their decision to keep short-term interest rates steady by acknowledging the "adjustment" in interest rates in previous months (i.e., the central bank reduced rates in September and early October, before the mid-October elections) as well as "uncertainty" about how changes to fiscal and regulatory policies under a new government could affect inflation. They concluded that the current level of interest rates is "conducive" to meeting the central bank's inflation target in the medium term.

Chile

On Thursday, the government reported that headline inflation in November was at a month-over-month rate of 0.7% and a year-over-year rate of 4.8%. According to T. Rowe Price emerging markets sovereign analyst Aaron Gifford, these readings were much higher than expected on the back of higher airfares during tourist season, as well as some payback from cyber-discounted retail sales in early October.

While these seem to be one-time factors, Gifford notes that core inflation in November was also elevated (0.5% month over month and 6.0% year over year), which suggests that the disinflation process in Chile remains challenging. This also clouds the outlook for policymakers' next interest rate decision when they convene on December 19. Thanks to weak growth and well-behaved inflation, the central bank has been able to reduce short-term interest rates three times in the second half of 2023—100 basis points in July, 75 basis points in September, and 50 basis points in late October. (One hundred basis points equal one percentage point.)

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