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Global Markets Weekly Update

Inflation cools in the U.S. and Europe

Highlighted Regions

U.S.

Stock and bond markets rally as investors welcome cooling inflation

Most of the major indexes ended higher for the week, with the S&P 500 Index and Nasdaq Composite rounding out on Thursday their best monthly gains (8.9% and 10.7%, respectively) since July 2020. Falling Treasury yields seemed to continue to boost sentiment, and a broad index of the bond market recorded its best monthly gain since 1985.

The week brought some good news on the inflation front. On Thursday, the Commerce Department reported that the Federal Reserve's preferred inflation gauge, the core (less food and energy) personal consumption expenditures (PCE) price index, rose 0.2% in October, a slowdown from September. This brought its year-over-year increase down to 3.5%—still well above the Fed's 2% target, but the lowest level since April 2021. Over the past six months, core PCE was running even slower, at an annualized rate of 2.5%.

Fed officials signal satisfaction with inflation progress

Even before the release of the data, a noted Fed hawk, Board Member Christopher Waller, surprised investors on Tuesday by telling a Washington conference that "I am increasingly confident that policy is currently well positioned to slow the economy and get inflation back to 2 percent." While cautioning that work remained, he also acknowledged that “we have seen the most rapid decline in inflation on record.”

According to Reuters, Waller also told the audience that if inflation continued to moderate over the next three to five months, “we could start lowering the policy rate just because inflation is lower," stressing that "it has nothing to do with trying to save the economy. It is consistent with every policy rule. There is no reason to say we will keep it really high."

A slight change in tone from Fed Chair Jerome Powell may have helped both stocks and bonds end the week on a strong note. In a speech on Friday, Powell acknowledged that interest rates were now “well into restrictive territory.” He also warned that the Fed would raise rates again, however, if dictated by the data.

Continuing jobless claims hit two-year high

The week arguably offered some evidence that the economy may be headed toward policymakers’ goal of a “soft landing.” Personal spending rose 0.2% in September, its smallest increase in six months, while personal incomes rose at the same pace. Housing permits came in above expectations, but actual starts surprised on the downside. Weekly jobless claims ticked down, but continuing claims jumped much more than expected to 1.93 million, their highest level since November 2021.

Hopes that the economy is running neither too hot nor too cold—the so-called “Goldilocks” scenario—may have been boosted by the release on Thursday of the Fed’s Beige Book. The central bank’s periodic survey of economic activity in its 12 separate districts was split down the middle, with half reporting growth and half contraction.

Powell’s comments helped push the yield on the benchmark 10-year Treasury note down to nearly a three-month low of 4.21% in intraday trading on Friday. (Bond prices and yields move in opposite directions.) According to our traders, tax-exempt municipal bonds got an additional lift from constructive technical conditions in the form of healthy demand and manageable new supply.

Issuance was in line with weekly expectations in the investment-grade corporate bond market. All issues were oversubscribed. According to our traders, the continued rates rally, and expectations that liquidity will become more challenging in mid- to late December supported the performance of high yield bonds.

Index	Friday's Close	Week's Change	% Change YTD
DJIA	36,245.50	855.35	9.35%
S&P 500	4,594.63	35.29	19.67%
Nasdaq Composite	14,305.03	54.18	36.67%
S&P MidCap 400	2,625.58	65.25	8.03%
Russell 2000	1,862.64	55.14	5.76%

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 ended 1.35% higher, as a steep decline in inflation and falling bond yields lifted investor sentiment. Major stock indexes rose as well. Germany's DAX climbed 2.30%, Italy's FTSE MIB tacked on 1.69%, and France's CAC 40 Index added 0.73%. The UK's FTSE 100 Index gained 0.55%.

European government bond yields broadly declined as lower-than-expected inflation data raised expectations that the European Central Bank (ECB) could start cutting interest rates next year. In Germany, the yield on the benchmark 10-year government bond fell toward its lowest level in more than four months. The yield on the benchmark 10-year Italian bond declined toward 4%. In the UK, bond yields bucked the broader trend, rising from midweek lows on hawkish comments from policymakers.

Eurozone inflation rate drops, but policymakers say it's not time for rate cuts

Eurozone annual consumer price growth in November slowed more than expected in November to 2.4%, down from 2.9% in October and below expectations for 2.7% in a FactSet poll of economists. Underlying price pressures also eased. Core inflation, which excludes food and energy costs, dropped to 3.6% from 4.2%. Separately, the jobless rate held steady at a record low of 6.5%.

Before inflation data were released, several policymakers reiterated their hawkish view that rates would have to stay higher to contain inflation. ECB President Christine Lagarde told a committee of the European Parliament that strong wage growth and an uncertain outlook meant that "this was not the time to start declaring victory" in the fight to curb inflation. Germany's Bundesbank President Joachim Nagel and Spain's Pablo Hernandez de Cos reiterated that it was too early to start talking about rate cuts.

German jobless rate rises; retail sales growth beats expectations

Germany's Federal Labour Office reported that the jobless rate rose to 5.9% in November, the highest level since 2021, from 5.8% in October. The statistics office said that, in seasonally adjusted terms, the number of people employed was flat compared with September, while rising 0.6% year over year. The number of job vacancies fell. Meanwhile, retail sales grew more than expected in October, increasing 1.1% sequentially, as falling inflation appeared to boost consumer confidence.

BoE's Bailey dismisses possibility of rate cuts; housing market shows signs of stabilizing

Bank of England (BoE) Governor Andrew Bailey continued to push back against market expectations for interest rate cuts. He told Daily Focus, a news service, that the BoE "will do what it takes" to reduce inflation to its 2% target, but he added that "we are not in a place now where we can discuss cutting interest rates – that is not happening."

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Japan

Japan's stock markets fell over the week, with the Nikkei 225 Index declining 0.6% and the broader TOPIX Index down 0.4%. Japanese shares were subject to some profit taking after rallying in November on expectations that U.S. interest rates had reached their peak, while a strong corporate earnings season and weakness in the yen had also provided a favorable backdrop.

Over the week, the yield on the 10-year Japanese government bond fell to 0.71%, from 0.77%, tracking recent weakness in U.S. bond yields on dovish remarks from Federal Reserve policymakers amid signs of slowing economic activity.

The yen strengthened to the high-147 range against the U.S. dollar from the prior week's mid-149 range. This was in an environment of general weakness in the greenback, as anticipation grew that the Fed could start cutting rates next year.

Government seeks to cushion impact of inflation

Japan's Prime Minister Fumio Kishida reiterated the government's commitment to taking all necessary measures to cushion the negative impact of recent price hikes. In early November, his administration announced a new economic stimulus package worth more than USD 110 billion, aimed at boosting growth and helping households cope with the rising cost of living. The measures include cuts to income and residential taxes as well as cash handouts to low earners. During the week, Japan's parliament enacted an extra budget for the current business year ended March 2024 to help fund the fiscal stimulus.

Dovish comments from BoJ board members signal policy continuity, for now

Bank of Japan (BoJ) board members tempered investor expectations that the central bank was getting close to pivoting away from its dovish policy stance. Toyoaki Nakamura could not say with conviction that a sustained and stable achievement of the BoJ's 2% inflation target was in sight and stressed the need to maintain ultra-loose monetary policy for the time being. Seiji Adachi echoed these views, stating that it was appropriate to patiently continue with monetary easing.

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China

Chinese equities retreated as official indicators underscored concerns about the country's fragile recovery. The Shanghai Composite Index gave up 0.31% while the blue chip CSI 300 lost 1.56%. In Hong Kong, the benchmark Hang Seng Index fell 4.15%, according to FactSet.

Economic data for October provided a mixed snapshot of China's economy. The official manufacturing Purchasing Managers' Index (PMI) fell to a below-consensus 49.4 in November from 49.5 in October, marking the second consecutive monthly contraction. The nonmanufacturing PMI slipped to a lower-than-expected 50.2 from 50.6 in October. Readings above 50 indicate growth from the previous month. On the other hand, the private Caixin/S&P Global survey of manufacturing activity rose to an above-forecast 50.7 in November from October's 49.5, as new order growth rose to the highest level since June.

Chinese authorities issued a 25-point plan to step up financial support for the private sector in Beijing's latest effort to boost business confidence. The measures aim to unblock financial channels such as loans, bonds, and equity financing. Separately, the People's Bank of China released its third-quarter monetary policy implementation report, in which it highlighted the changing structure of lending. The central bank encouraged observers to look beyond the volume of new loans as it shifts its focus to improving the efficiency and structure of loans. A slowdown in industrial profits growth pointed to persistent weakness in parts of China's economy.

Profits at industrial firms increased by 2.7% in October from the year-ago period but slowed from September's 11.9% gain. For the first 10 months of 2023, profits fell by 7.8% from a year ago, slowing from a 9% contraction recorded in the first nine months of the year. The latest report deepened concerns that China's recovery has yet to find a solid footing as a yearslong property sector slowdown has curbed demand across the economy. The value of new home sales by the country's top 100 developers fell 29.6% in November from a year earlier, accelerating from the 27.5% drop in October, according to the China Real Estate Information Corp.

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Other Key Markets

Türkiye (Turkey)

Late last week, the central bank held its regularly scheduled meeting and raised its key policy rate, the one-week repo auction rate, from 35.0% to 40.0%. While this is well above the 8.5% level, where it was as recently as May, year-over-year inflation is slightly more than 61%, so real (inflation-adjusted) interest rates are still well below 0%.

In the central bank's post-meeting statement, policymakers noted that "domestic demand, the stickiness in services inflation, and geopolitical risks" are supporting price pressures. However, they also noted that "domestic demand has started to moderate" and that factors such as "improvement in external financing conditions, continued increase in foreign exchange reserves," and increased demand for lira-denominated assets are contributing "significantly to exchange rate stability and the effectiveness of monetary policy."

Policymakers concluded that "the current level of monetary tightness is significantly close to the level required to establish the disinflation course. Accordingly, the pace of monetary tightening will slow down and the tightening cycle will be completed in a short period of time." Policymakers remain committed to bringing inflation down to 5% in the medium term and intend to keep monetary policy tight "as long as needed to ensure sustained price stability."

Mexico

Mexico's central bank held a press conference following the publication of its quarterly monetary policy report. T. Rowe Price emerging markets sovereign analyst Aaron Gifford notes that policymakers' previous inflation forecasts remain intact, estimating a return to the 3% inflation target by the second quarter of 2025. This is despite a meaningful upgrade to gross domestic product growth, with the economy seen expanding by 3.3% in 2023 (versus a 3.0% estimate in the previous report) and 3.0% next year (versus a previous projection of 2.1%).

Based on a recent research trip to Mexico City, Gifford believes that many additional growth drivers could increase Mexico's productive capacity without pressuring inflation. For example, many of the government's infrastructure projects and nearshoring-related activities fall under this category. Importantly, central bank Governor Victoria Rodriguez Ceja mentioned that the inflation forecasts include all of these variables and others, such as fiscal expansion.

While the Board of Governors acknowledges that inflation risks are still to the upside, there's a growing consensus that real interest rates (calculated by subtracting 12-month ahead inflation expectations from the policy rate) are too high in Mexico, even as inflation has declined significantly. In this sense, Gifford believes that many Board members are warming up to the idea of interest rate cuts as soon as the first quarter of next year.

Important Information

Next Steps

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

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