MARKETS & ECONOMY | APRIL 26, 2024

Global markets weekly update

Business activity picks up in Europe

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U.S.

Stocks break losing streak

The S&P 500 Index and most other major benchmarks managed to snap a string of three weekly losses as investors responded to the busiest week of the first-quarter earnings reporting season. As of the end of the week, analysts polled by FactSet were expecting overall earnings for the S&P 500 to have

increased 3.7% in the first quarter relative to the year before, with "both the percentage of S&P 500 companies reporting positive earnings surprises and the magnitude of earnings surprises... above their 10-year averages."

The technology-heavy Nasdaq Composite Index performed best, helped in part by strength in Apple and a late rebound in chipmaker NVIDIA. Shares in Google parent Alphabet also surged late in the week following its announcement of better-than-expected first-quarter earnings along with the company's first dividend payment. Conversely, Facebook parent Meta Platforms fell sharply—at one point erasing nearly USD 200 billion in market value—after CEO Mark Zuckerberg announced plans to continue heavy spending on artificial intelligence and other new technologies.

Unclear whether bad news for growth is good news for markets

The week started off on a strong note, which, according to T. Rowe Price traders, seemed to be due to investors trying to capitalize on recent declines in the tech sector as well as short covering, or buying to limit potential losses on bets that stocks will decline. The buying continued on Tuesday, which may have been due in part to some downside surprises in economic data—interpreted as good news for markets because of the reduced pressure it implied on inflation and interest rates. S&P Global reported that its gauge of U.S. manufacturing activity fell back into contraction territory (below 50.0) in April, at 49.9, well below consensus estimates of around 52.0. S&P's gauge of services sector activity, while still indicating expansion, also missed expectations, at 50.9 versus 52.0.

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Thursday's bad economic news appeared to be treated as bad news, however. The Commerce Department's advance estimate showed the economy expanding at an annualized rate of 1.6% in the first quarter, well below consensus estimates of around 2.5% and the slowest pace of growth in nearly two years. A sharp slowdown in government spending and a widening trade deficit were partly to blame, but consumers also continued to rein in spending, particularly on goods. Separate data released Wednesday showed that businesses continued to increase capital spending in March, but at a slower pace (0.3%) than in February, where the gain was revised lower to 0.4%.

Mixed signals from Fed's preferred inflation gauge

Inflation data released Thursday also seemed to concern investors and raise worries that the U.S. might even be in danger of "stagflation," or rising prices alongside flagging growth. The Commerce Department reported that its core

(less food and energy) personal consumption expenditures (PCE) index rose at an annualized rate of 3.7% in the first quarter, more than expected and well above both the fourth quarter's 1.7% increase and the Federal Reserve's 2% long-term inflation target.

Friday's rebound in stocks appeared largely due to better news on the inflation front, with futures jumping after the Commerce Department's release of monthly core PCE data. Core PCE inflation continued to decline on an annual basis in March, if ever so slightly, falling to 2.82% from 2.84% in February, continuing a downward trajectory that began in October 2022. Friday also brought news, however, that the University of Michigan's revised gauge of consumer sentiment in April fell back from a nearly three-year high in March, reflecting, in part, higher inflation expectations.

The yield on the benchmark 10-year U.S. Treasury note decreased somewhat following the release of Friday's PCE data but still ended the week near its highest level in almost six months. (Bond prices and yields move in opposite directions.) Our traders noted strong retail and institutional demand for new deals in the tax-free municipal bond market, with many oversubscribed. Meanwhile, the investment-grade corporate bond market had a relatively quiet week with limited issues that were also largely oversubscribed.

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Index	Friday's Close	Week's Change	% Change
DJIA	38,239.66	253.26	1.46%
S&P 500	5,099.96	132.73	6.92%
Nasdaq Composite	15,927.90	645.89	6.11%
S&P MidCap 400	2,895.25	58.37	4.09%
Russell 2000	2,002.00	54.34	-1.24%

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 snapped a three-week losing streak and ended 1.74% higher. An easing of Middle East tensions and some encouraging corporate earnings results helped to boost sentiment. Most major stock indexes also advanced. Germany's DAX gained 2.39%, France's CAC 40 Index added 0.82%, and Italy's FTSE MIB climbed 0.97%. The UK's FTSE 100 Index climbed to fresh all-time highs, putting on 3.09%.

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European government bond yields hit their highest levels this year. Strong U.S. economic data increased expectations that the Federal Reserve would keep interest rates higher for longer, which could force other major central banks to follow suit. The yield on the benchmark 10-year German government bond briefly spiked above 2.6%.

ECB hawks cautious on rate cuts after June

Numerous European Central Bank policymakers have signaled that they expect to lower interest rates in June, barring economic shocks. However, comments by hawks appeared to cast doubt on subsequent reductions in borrowing costs. German Bundesbank President Joachim Nagel said in a speech that a decision in June "would not necessarily be followed by a series of rate cuts," given the current uncertainty. Executive Board member Isabel Schnabel highlighted that services inflation was the biggest concern. "There is a consensus emerging that we may be facing a quite bumpy last mile," she said.

Eurozone PMIs, German data improve

Business activity in the eurozone grew at the fastest pace in nearly a year in April, driven by a recovery in the services industry, according to purchasing managers' surveys compiled by S&P Global. A first estimate of the HCOB Eurozone Composite Purchasing Managers' Index (PMI), which includes the services and manufacturing sectors, came in at 51.4, up from 50.3 in March. A consensus forecast had called for PMI of 50.7. Readings above 50 indicate expansion.

Germany's PMI and the Ifo Institute's barometer of business confidence provided further evidence that the country's economic downturn may be bottoming out. The private sector returned to growth in April, as services activity increased and a decline in manufacturing eased. Overall business sentiment improved for a third consecutive month, and the government increased its forecast for economic growth this year to 0.3% from 0.2%.

UK business activity strengthens in April, but demand appears to weaken

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Business activity in the UK grew at the fastest pace in almost a year, with the composite PMI rising to 54.0 from 52.8 in March. Input costs increased at the strongest pace in 11 months, but output prices declined, suggesting that weakening demand is squeezing business margins.

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Japan

Buoyed by historic yen weakness, Japan's stock markets gained over the week, with both the Nikkei 225 Index and the broader TOPIX Index returning 2.3%. The Bank of Japan (BoJ) refrained from making changes to its monetary policy at its April meeting, which was perceived as broadly dovish by investors. BoJ Governor Kazuo Ueda hinted that confidence to raise interest rates further is set to increase in the second half of this year, however. In the fixed income markets, the yield on the 10-year Japanese government bond rose to 0.91% from the prior week's 0.84%.

The yen's plunge continues, but authorities refrain from intervening

Once again, authorities, refrained from intervening in the currency markets to prop up the historically weak yen, despite intense speculation about the growing likelihood of such action. The yen weakened to about JPY 156.8 against the USD, from about 154.6 at the end of the previous week. Within this context, Ueda acknowledged that prolonged currency weakness is a risk factor. He reiterated that the central bank would keep monitoring foreign exchange markets and their impact on the economy.

Signs of easing inflation, expansion in private sector activity

Inflationary pressures showed some signs of easing, with the Tokyo-area core consumer price index (CPI) rising 1.6% year on year in April, short of consensus expectations and down from 2.4% in March. The easing was attributable primarily to the impact of subsidies.

Elsewhere on the economic data front, flash April purchasing managers' index releases signaled stabilization in Japan's manufacturing sector while the services segment strengthened. The composite PMI rose to 52.6 from 51.7 in March. The pace of hiring picked up across the private sector, as business confidence remained positive—this suggests that the expansion in activity is likely to be sustained in the near term, according to au Jibun Bank, which compiles the PMI survey.

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China

Chinese stocks rose as investors grew more optimistic about the economy. The Shanghai Composite Index gained 0.76%, while the blue chip CSI 300 added 1.2%. In Hong Kong, the benchmark Hang Seng Index soared 8.8%, according to FactSet.

China's economy is expected to grow 4.8% this year, up from a median forecast of 4.6% last month, according to 15 economists surveyed by Bloomberg. China's gross domestic product grew an above-consensus 5.3% in the first quarter from a year earlier, accelerating slightly from the 5.2% year-over-year expansion in the

fourth quarter of 2023. However, economists downgraded their inflation forecasts as declining producer prices and a persistent property market slump remain a drag on the economy.

On the monetary policy front, Chinese banks left their one- and five-year loan prime rates unchanged at 3.45% and 3.95%, respectively, as expected, after the People's Bank of China kept its medium-term lending rate on hold the prior week. Some analysts believe that policymakers have turned more cautious on monetary easing after the central bank withdrew cash from the banking system for a second consecutive month in April.

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Other Key Markets

Hungary

Central bank officials favor a "careful and patient approach" to monetary policy

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On Tuesday, the National Bank of Hungary (NBH) held its regularly scheduled meeting and reduced its main policy rate, the base rate, from 8.25% to 7.75%. The NBH also reduced the overnight collateralized lending rate—the upper limit of an interest rate "corridor" for the base rate—from 9.25% to 8.75%. In addition, the central bank lowered the overnight deposit rate, which is the lower limit of that corridor, from 7.25% to 6.75%. These 50-basis-point rate cuts, which were smaller than the central bank's 75-basis-point rate reductions at the end of March, were widely expected.

According to the central bank's post-meeting statement, policymakers continued to characterize disinflation as being "strong and general in the Hungarian economy." They also noted that the annual rate of consumer price inflation in March was 3.6% and that inflation has been within the central bank's "tolerance band" since the beginning of 2024. However, they continue to expect that the "pace of price increases will rise temporarily in the middle of this year due to the backward-looking pricing of market services and base effects."

Nevertheless, policymakers concluded that "the outlook for inflation warrants further reduction in the base rate at a slower pace than earlier." They specifically identified a "new phase" of monetary policy that began in April and noted that

risks related to “global disinflation, volatility in international investor sentiment, and the sustainable continuation of domestic disinflation warrant a careful and patient approach to monetary policy in the coming months.”

Türkiye (Turkey)

Rates on hold following “significant tightening in financial conditions” in March

On Thursday, Türkiye’s central bank held its scheduled monetary policy meeting. As was widely expected, the central bank left its key interest rate, the one-week repo auction rate, at 50.0%.

According to the post-meeting statement, policymakers noted that “the underlying trend of monthly inflation was higher than expected” in March and that their one-week repo auction rate hike from 45.0% to 50.0% toward the end of March has led to “a significant tightening in financial conditions.” They also acknowledged that the “lagged effects” of monetary policy tightening was the reason for keeping rates unchanged, but they cautioned that future interest rate increases are possible “in case a significant and persistent deterioration in inflation is foreseen.”

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