MARKETS & ECONOMY | OCTOBER 27, 2023

Global Markets Weekly Update

Highlighted Regions

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U.S.

The major U.S. stock benchmarks finished lower for a second straight week, as market sentiment was dented by mixed corporate earnings reports and concerns about higher interest rates—highlighted by the yield on the benchmark 10-year U.S. Treasury note briefly breaching the 5% level for the first time in 16 years.

Tech giants announce mixed results

It was a busy week for quarterly earnings reports, with nearly a third of the S&P 500 Index due to report. Investors seemed particularly focused on results from Amazon.com, Google parent Alphabet, Facebook owner Meta Platforms, and Microsoft, all of which are members of the mega-cap technology-focused group of stocks known as the Magnificent Seven that helped drive positive market results earlier in the year.

Although most metrics reported by the companies showed solid growth and exceeded consensus expectations, markets seemed to pounce on indications of rising expenses, which weighed on shares. Amazon's report, released after the market closed on Thursday, appeared to receive the most positive reaction, and shares of the company rallied on Friday. T. Rowe Price traders noted that market participants may have been hoping for stronger results from the tech giants to help offset recent concerns about interest rates and geopolitical risks.

Third-quarter economic growth hotter than expected

Economic news during the week was highlighted by a better-than-expected gross domestic product report, which showed that the U.S. economy grew at an annualized pace of 4.9% in the third quarter, led by strong consumer spending. It was the best showing since the end of 2021 and more than double the level seen in the second quarter. Other data also appeared benign, as home sales reached a 19-month high and S&P Global's flash U.S. Composite Purchasing Managers' Index (PMI) ticked up from September.

Meanwhile, the core personal consumption expenditures (PCE) price index, the Federal Reserve's preferred inflation gauge, provided mixed evidence on whether inflation is moderating. On a monthly basis, core PCE—which excludes volatile food and energy costs—increased to 0.3% in September from 0.1% in August, although the year-over-year measure ticked down to 3.7% in September from 3.8% previously. Although the latest data showed inflation remaining well above the Fed's 2% long-term inflation goal, the central bank is widely expected to hold rates steady at its October 31-November 1 policy meeting.

10-year U.S. Treasury yield pulls back from 5% level

After crossing the 5% threshold on Monday, the yield on the 10-year U.S. Treasury note trended lower and traded around 4.8% at the end of the week. Tax-exempt municipal bonds saw continued outflows industry-wide, and higher-than-average net supply continued to represent headwinds. However, our municipal traders noted that many of the new deals were well received.

In the investment-grade corporate bond market, issuance was lower than expected, and all deals were oversubscribed. In the high yield bond market, T. Rowe Price traders noted that buyers of higher-quality securities remained active, and investors with cash on hand appeared to be looking for values amid market weakness.

Index	Friday's Close	Week's Change	% Change YTD
DJIA	32,417.59	-709.69	-2.20%
S&P 500	4,117.37	-106.79	7.24%
Nasdaq Composite	12,643.01	-340.80	20.80%
S&P MidCap 400	2,326.82	-66.46	-4.26%
Russell 2000	1,636.94	-43.85	-7.06%

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 ended 0.96% lower amid uncertainty about interest rates, the economy, and conflicts in the Middle East. Major stock indexes slipped. Germany's DAX fell 0.75%, France's CAC 40 Index eased 0.31%, and Italy's FTSE MIB dipped 0.25%. The UK's FTSE 100 Index lost 1.50%.

Eurozone government bond yields eased slightly after the European Central Bank (ECB) kept short-term interest rates on hold, raising expectations that rates have finally peaked in the eurozone. The 10-year German bund yield fell to around 2.84%, while the 10-year Italian government bond yield slipped to around 4.81%.

ECB leaves rates unchanged

After increasing interest rates 10 consecutive times, the ECB left its key deposit rate unchanged at 4.0% and reiterated that maintaining this level for a long enough period would help to bring inflation down to its medium-term target of 2%. The Governing Council said previous tightening of monetary policy was already spreading "forcefully into financing conditions" and was "increasingly dampening demand." ECB President Christine Lagarde said at a press conference that the eurozone economy was "weak" and would remain so "for the remainder of this year."

Eurozone business activity shrinks again

The decline in eurozone business activity accelerated at the start of the fourth quarter, according to purchasing managers' surveys compiled by S&P Global. An early estimate of the HCOB Eurozone Composite Purchasing Managers' Index (PMI), which includes both the manufacturing and services sectors, fell more than expected to 46.5 from 47.2 in September. This latest reading, a 35-month low, marked the fifth consecutive month that the PMI was less than 50, the level that corresponds with shrinking business output. The PMI for the manufacturing sector was the deepest into contractionary territory, and the slowdown in services quickened.

The latest leading indicators pointed to a challenging economic environment in Germany, with the composite PMI compiled by S&P Global remaining in contractionary territory and falling to a two-month low.

UK jobless rate rises; business activity declining

The UK's unemployment rate rose to 4.2% in the three months through August from 4.0% in March-to-May period, according to a new data series from the Office for National Statistics that uses an updated methodology.

Separately, a purchasing managers' survey showed that business activity in the private sector remained in contractionary territory for a third month running in October.

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Japan

Japan's stock markets eased over the week, with the Nikkei 225 Index down 0.86% and the broader TOPIX Index little changed. Rising bond yields and geopolitical tensions weighed on market sentiment at the start of the week, but investor bottom-fishing at the lows, a rebound in technology stocks, and a fresh dose of Chinese economic stimulus helped local stock markets recoup their losses.

Moves in the foreign exchange and bond markets and a pickup in inflation fueled intense speculation of potential intervention by the authorities and a possible adjustment to the yield curve control policy by the Bank of Japan (BOJ) at its upcoming meeting.

JGB benchmark yield hits 10-year high

The yield of the 10-year Japanese government bond rose to a 10-year high of 0.87%, approaching the central bank's upper bound of 1.0%, at the start of the week. The BOJ then conducted an unscheduled bond-purchase operation to curb rising sovereign debt yields, buying five- to 10-year bonds and 10- to 25-year notes in the fifth unscheduled operation since July. According to some reports, markets are speculating that policymakers could debate proposals including another increase in the upper bound, revisions to BOJ market operations, and dropping the mention of a desired target range for yields of plus or minus 0.5%, as that level has now been exceeded.

Yen weakness prompts intervention fears

In the currency markets, the yen weakened past the closely watched 150 level to the U.S. dollar, spurring fears of a possible intervention by the authorities. Finance Minister Shunichi Suzuki warned speculators that officials would continue to respond to the currency market "with a strong sense of urgency," but he declined to comment on whether there had been any recent intervention to support the currency.

Inflation accelerates; PMI shows business activity contracted

Tokyo's core inflation rate, a leading indicator of nationwide price trends, accelerated to 2.7% in October, which was above consensus and the first strengthening in four months. The consumer price index for Japan rose to 3.3% from 2.8% in September. Separately, the au Jibun Bank of Japan Composite PMI fell to 49.9 in October from 52.1 in September due to ongoing weakness in the manufacturing sector. Activity in the services sector expanded for a 14th straight month but at a slower pace. A PMI reading below 50 is consistent with a contraction in output.

In other economic news, Prime Minister Fumio Kishida unveiled measures to cut taxes by JPY 5 trillion at a coalition meeting. News reports said that the measures could include a reduction of JPY 40,000 per person next June and a handout of JPY 70,000 for low-income households possibly by the end of 2023.

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China

Equities in China rose as an improvement in industrial profits suggested that the economy may be stabilizing. The Shanghai Composite Index advanced 1.16% while the blue chip CSI 300 gained 1.48%. In Hong Kong, the benchmark Hang Seng Index added 1.32% in the holiday-shortened week. Stock markets in Hong Kong were closed Monday for the Chung Yeung Festival.

Profits at industrial firms in China increased by 11.9% in September from the prior-year period, marking the second consecutive monthly increase, but slowed from the 17.2% rise in August. For the first nine months of 2023, profits fell by 9% from a year ago, following an 11.7% contraction recorded in the first eight months of the year. Demand improved during the month, boosting hopes that parts of China's economy may have bottomed.

Last Tuesday, China's government authorized the issuance of RMB 1 trillion in additional sovereign debt for disaster relief and construction. It also approved a plan to raise the fiscal deficit ratio for 2023 to about 3.8% of gross domestic product, up from the 3% limit it set in March. The budget changes from the Standing

Committee of the National People's Congress were Beijing's latest attempt to shore up support for the country's financial markets and economy, which are struggling amid a persistent housing market crisis.

Country Garden Holdings, previously China's largest property developer, defaulted on its offshore debt payments for the first time after it was unable to meet interest payments at the end of a 30-day grace period. The crisis at Country Garden, which recently appointed financial advisers to help it carry out an offshore debt restructuring, underscores the company's fall into distress amid China's housing market slump. The company is the latest high-profile casualty of China's housing market downturn after China Evergrande defaulted on its offshore bonds in 2021, an event that sparked the current crisis.

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Other Key Markets

Turkiye (Turkey)

On Thursday, the central bank held its regularly scheduled meeting and raised its key policy rate, the one-week repo auction rate, from 30.0% to 35.0%. While this is well above the 8.5% level, where it was as recently as May, year-over-year inflation is currently more than 60%, so real (inflation-adjusted) interest rates are still well below 0%.

According to the central bank's post-meeting statement, policymakers decided to "continue the monetary tightening process in order to establish the disinflation course as soon as possible, to anchor inflation expectations, and to control the deterioration in pricing behavior." They noted that third-quarter inflation readings were higher than expected, as "domestic demand, the stickiness of services inflation, and the deterioration in inflation expectations continue to put upward pressure on inflation." In addition, they affirmed their commitment to adjust the policy rate "in a way that will create monetary and financial conditions necessary to ensure a decline in the underlying trend of inflation and to reach the 5 percent inflation target in the medium term."

T. Rowe Price sovereign analyst Peter Botoucharov is encouraged by policymakers' continuing efforts to return to a more orthodox monetary policy stance. He is optimistic that this latest rate hike will allow Turkish lira bank deposit rates to rise to, if not above, 50% on an annualized basis. He is also hopeful that the central bank's actions will restore some confidence among local businesses and consumers.

Hungary

On Tuesday, the National Bank of Hungary (NBH) held its regularly scheduled meeting and reduced its main policy rate, the base rate, from 13.00% to 12.25%. The NBH also reduced the overnight collateralized lending rate—the upper limit of an interest rate "corridor" for the base rate—from 14.00% to 13.25%. In addition, the central bank lowered the overnight deposit rate, which is the lower limit of that corridor, from 12.00% to 11.25%.

According to the central bank's post-meeting statement, "The widespread and general decline in domestic inflation continued in September." Policymakers also noted that "core inflation slowed across a wide range of products and services" and that the "three-month annualised change in core inflation, an indicator better capturing underlying inflation in the current situation, fell below 4 percent." In addition, central bank officials predicted that headline and core inflation "will continue to decrease" in the months ahead because "tight monetary policy, lower commodity prices compared to last year, subdued domestic consumption and the Government's measures to strengthen market competition are expected to have an increasingly broad-based strong disinflationary effect."

Important Information

Next Steps

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