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Global Markets Weekly Update

Prices stop falling in China for first time in half a year

Highlighted Regions

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

U.S.

Prices stop falling in China for first time in half a year

Stocks were mostly lower for the week, as investors weighed upside surprises in inflation data and signs of moderating consumer spending. The Dow Jones Industrial Average held up best among the major indexes and reached a record high on Wednesday before falling back to end the week. Energy shares outperformed on the back of higher oil prices, while technology shares lagged due to weakness in NVIDIA and other chipmakers.

T. Rowe Price traders noted that markets got off to a generally quiet start to the week, as investors awaited the release of consumer inflation data on Tuesday. The Labor Department's consumer price index (CPI) rose 0.4% in February, in line with consensus expectations, but core prices (less food and energy) rose a tick more than expected, also by 0.4%. Investors appeared to take the upside core surprise largely in stride, perhaps because it was due in part to a continued increase in shelter costs, generally considered a lagging indicator of overall inflation trends. Apparel costs jumped 0.6% but remained flat over the past 12 months.

Producers face higher input costs

Thursday’s upside producer inflation surprises appeared to cause greater consternation. The producer price index (PPI) rose 0.6% in February, roughly double consensus estimates and the most in six months. While core producer prices rose only 0.3%, this was also slightly more than expected. On a year-over-year basis, headline producer prices were up 1.6%, well above expectations and at the highest level since September. The data appeared to weigh on hopes that low inflation or even deflation in producer prices would eventually flow down to prices paid by consumers.

The stock market's reaction to the inflation data may have been mitigated by surprising weakness in Thursday's retail sales report. The Commerce Department reported that retail sales rose 0.6% in February, but the gain missed expectations and was largely due to an increase in gasoline prices (retail sales data are not adjusted for inflation). Notably, online sales also declined 0.1%, marking a sharp deceleration from the 6.4% increase over the past 12 months. Sales at restaurants and bars increased 0.4%, but also at a slower pace, suggesting some growing consumer caution. Indeed, the University of Michigan's survey of consumer sentiment, released Friday, indicated a modest decline in consumer expectations, with American's perceiving "few signals that the economy is currently improving or deteriorating," according to its lead researcher.

Yields rise on inflation data

The bond market's reaction to the inflation surprises was more pronounced, with the yield on the benchmark 10-year Treasury note touching its highest intraday level (4.32%) since February 27. (Bond prices and yields move in opposite directions.) Municipals outperformed Treasuries, even as primary issuance volume rose sharply. The largest deals appeared to do well as our traders observed strong demand from retail investors.

Feedback

Our traders noted that investment-grade issuance was heavy at the start of the week and was also largely oversubscribed. Likewise, high yield bond investors appeared to view the hotter-than-expected CPI number as manageable given the technical backdrop of high cash balances and limited new issuance. Investors seemed ready to use any weakness to add positions. However, the market turned lower along with equities amid broad macro headwinds following the release of PPI data.

Index	**Friday's Close**	**Week's Change**	**% Change YTD**
DJIA	38,714.77	-7.92	2.72%
S&P 500	5,117.09	-6.60	7.28%
Nasdaq Composite	15,973.17	-111.94	6.41%
S&P MidCap 400	2,923.76	-28.63	5.11%
Russell 2000	2,039.31	-43.40	0.60%

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 added 0.31%, notching an eighth consecutive weekly gain. Encouraging corporate earnings and growing hopes that the European Central Bank (ECB) would lower borrowing costs in June stoked the advance. France's CAC 40 Index rose 1.70%, Italy's FTSE MIB gained 1.61%, and Germany's DAX added 0.69%. The UK's FTSE 100 Index put on 0.94%.

The yield spread between German and Italian benchmark 10-year sovereign bonds narrowed significantly due to growing confidence in Italy's economic policy and increased demand for high yield debt ahead of a likely reduction in borrowing costs later this year.

UK labor market loosens slightly; GDP grows; BoE's Bailey says UK "close" to full employment

The unemployment rate in the UK unexpectedly rose from 3.8% to 3.9% in the three months through January. Wage growth, excluding bonuses, fell to 6.1%, the lowest level since mid-2022.

Meanwhile, the UK economy showed signs that it may be recovering from a recession in the second half of 2023. Gross domestic product (GDP) increased 0.2% sequentially in January, bolstered by expansion of retailing and wholesaling. However, GDP fell 0.1% over the three months through January.

Feedback

Bank of England (BoE) Governor Andrew Bailey said at a Bank of Italy symposium that the UK was "near or at full employment." He asserted that the UK was experiencing an "unusual" pattern of disinflation with full employment and stated that his concerns about a potential wage-inflation spiral had diminished.

Wieladek: ECB to cut rates in June and in following meetings

Bloomberg reported that, in an interview Wednesday, Latvian central banker Martins Kazaks suggested that rate cuts were coming soon and stated that "the dragon of inflation is pinned to the ground; a little more and it will be defeated." Francois Villeroy de Galhau, Robert Holzmann, and Pierre Wunsch were among the ECB policymakers who argued during the week that an interest rate cut may be needed by June.

T. Rowe Price European Economist Tomasz Wieladek says the ECB has clearly signaled its preference to cut interest rates in June. He sees the potential for the central bank to reduce borrowing costs at every subsequent meeting this year. There are risks that service inflation may pick up, but he believes policymakers will focus on slowing wage growth.

↑ Return to Top

Japan

Japan's stock markets generated a negative return over the week, with the Nikkei 225 Index losing 2.5% and the broader TOPIX Index down 2.1%. The likelihood of the Bank of Japan (BoJ) ending its negative interest rate policy in the near term rose with the announcement of the highest average wage rises for members of Japan's labor unions since the early 1990s. The BoJ is committed to the view that monetary policy tweaks will hinge on the meeting of its 2% inflation target, driven by inflation accompanied by wage growth. Economists' consensus expectations are now converging around a March or an April interest rate hike.

The BoJ's ultra-accommodative policy has weighed heavily on the yen, boosting many of the country's large-cap exporters who derive their revenues from overseas. The yen weakened over the week, to the high end of the JPY 148 against the USD range, from around JPY 147 at the end of the previous week. The yield on the 10-year Japanese government bond rose to 0.79% from a prior 0.73%, hitting its highest level in about three months in anticipation of the BoJ adjusting its monetary policy settings.

Revised report shows Japan avoided recession

BoJ Governor Kazuo Ueda gave a relatively downcast view of the country's prospects, stating that while the economy is recovering moderately, weakness has been seen in some data. However, economic growth figures released early in the week showed that Japan had in fact averted a technical recession (marked by two successive quarters of negative growth) in the final quarter of last year. Gross domestic product in the fourth quarter of 2023 expanded 0.1% on the quarter compared with the earlier release suggesting the economy had contracted 0.1%. On an annualized basis, this equated to a 0.4% expansion versus a prior fall of 0.4%.

Return to Top

China

Chinese stocks rose as the government's recent market stabilization measures boosted investor confidence despite a weak economic outlook. The Shanghai Composite Index gained 0.28%, while the blue chip CSI 300 added 0.71%. In Hong Kong, the benchmark Hang Seng Index rallied 2.25%, according to FactSet.

China's consumer price index rose an above-consensus 0.7% in February from the prior-year period, reversing January's 0.8% decline and marking the first positive reading since August 2023 as food and services prices increased and consumption surged during the weeklong Lunar New Year holiday. However, the producer price index fell a bigger-than-expected 2.7% from a year ago, accelerating from January's 2.5% drop and marking the 17th monthly decline, the longest streak of declines since 2016, according to Bloomberg. Investors remained cautious on calling a trough to deflation as China grapples with weak domestic demand.

The People's Bank of China injected RMB 387 billion into the banking system via its medium-term lending facility and left the lending rate unchanged at 2.5%, as expected. With RMB 481 billion in loans set to expire this month, the operation resulted in a net withdrawal of RMB 94 billion from the banking system, the first cash extraction through the liquidity instrument since November 2022.

In other news, the State Council pledged to increase spending by at least 25% by 2027 from last year to encourage consumers and businesses to replace old equipment and goods. The plan aims to benefit sectors such as industry, agriculture, transport, education, and health care and is seen as a crucial step for Beijing to meet its 2023 economic growth target of 5%, which it unveiled at the National People's Congress in early March.

Property prices extend declines

China's new home prices fell 0.3% in February for the eighth straight month, according to the statistics bureau. The data showed no sign of turnaround in China's property crisis despite Beijing's attempts to shore up demand. Earlier in the week, Moody's lowered the credit rating for China Vanke, one of the country's biggest developers, to junk from investment-grade and said that all of Vanke's ratings are on review for downgrade. The downgrade by Moody's for Vanke, a state-backed company, will likely further undermine confidence in China's property sector.

Return to Top

Other Key Markets

Petrobras dividend change creates volatility in Brazil

Brazilian stocks were volatile as investors continued to react to the previous week's news that state-owned oil giant Petroleo Brasileiro (known as Petrobras) would not pay extraordinary dividends. By retaining funds that otherwise would have been paid out to Petrobras shareholders in the form of dividends, Brazil's government could use the revenue for its fiscal purposes, creating a natural tension between shareholders and the government. Petrobras is a bellwether stock for Brazil's market, so the fluctuations in its price generated by investors revising their dividend expectations influenced the entire market.

Brazil reported that its annual inflation rate was 4.5% in February, slightly higher than the median consensus estimate. The country's sovereign bonds lost ground on the news. While the February inflation data were at the top of the Central Bank of Brazil's target range, many analysts still expect the central bank to extend its series of rate cuts.

Argentina benefits from debt rollover

The Argentine government exchanged more than USD 50 billion in outstanding peso-denominated debt that is due to mature this year for new, longer-maturity bonds. The debt swap covers about 77% of the country's peso-denominated notes that were set to mature in 2024, giving the government more breathing room to shore up its finances. While debt exchanges are common in Argentina, this was the country's largest-ever rollover and was widely seen as a vote of confidence in President Javier Milei's economic policies.

Feedback

Argentina also received some good news on the inflation front as consumer prices increased 13.2% in February from January, notably less than the 15% consensus estimate. The combination of better-than-expected inflation data and the completion of the country's largest domestic debt swap led to strong gains for Argentina's U.S. dollar-denominated bonds.

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Return to Top